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Trade Marks and Free Trade

A Global Analysis

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To my beloved grandmother Sophia

Preface

> Perhaps one of the most trade-related issues in the field of intellectual property is exhaustion of rights together with the issue of parallel importation
>
> *Thomas Cottier*

Contrary to the other industrial property rights and also copyright,[1] the legal protection of the right to the trademark is not dictated by the special value encompassed in its essence, namely the sign of which the trademark consists. It is dictated by the ability of the trademark to identify the origin of a product or service from a specific undertaking and to distinguish a product or a service from the products or services of another undertaking.[2] This position is confirmed by the

[1] With regard to industrial property rights, see Nikolaos Rokas (2004), Industrial Property, pp. 1–2 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek); Thanasis Liakopoulos (2000), Industrial Property, pp. 77–85 (5th edition, P. N. Sakkoulas Publications, Athens) (in Greek); Vasilis Antonopoulos (2005), Industrial Property, p. 13, Nr. 13 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek). For copyright, see Lampros Kotsiris (2000), Greek Copyright Law, pp. 112–116, Nr. 193–194 (4th edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek); Michael-Theodoros Marinos (2000), Copyright Law, pp. 7–11, Nr. 20–26 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek). Industrial property rights and copyright are often referred to together as “intellectual property rights” (IPRs). See Christos Chrysanthis (2009), The International Protection of the Intellectual Property in Charis Pampoukis (ed.) Law of International Transactions, pp. 785, 785–786 (Nomiki Vivliothiki Publications, Athens) (in Greek); Giorgos Koumantos (1994), Intellectual Property, EllDni 1464 (in Greek); William Cornish & David Llewelyn (2007), Intellectual Property: patents, copyright, trade marks and allied rights, paras 1-01, and 1-04 to 1-11 (6th edition, Sweet & Maxwell, London).

[2] Vasilis Antonopoulos (2005), Industrial Property, pp. 367–368, Nr. 444 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek).

definitions of trademarks included in the modern national trademark laws of developed (or industrialised) and developing countries,[3] as well as in the TRIPs

[3] The United Nations and also most of the research sources used in this study classify countries as developed or industrialised and developing, based on their gross national product (GNP). Definitions of trademarks taken from the European Union (EU) trademark law and from trademark laws of developed (or industrialised) and developing countries are given below: a) EU trademark law: "A trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings" (Article 2 of Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks). "A trade mark may consist of any signs capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings" (Article 4 of the Council Regulation 207/2009/EC of 26 February 2009 on the Community trade mark); b) trademark laws of developed (or industrialised) countries: i) Japan: "'Trademark' in this Act means any character(s), figure(s), sign(s) or three-dimensional shape(s), or any combination thereof, or any combination thereof with colors (hereinafter referred to as a 'mark') which is: (i) used in connection with the goods of a person who produces, certifies or assigns the goods as a business; or (ii) used in connection with the services of a person who provides or certifies the services as a business (except those provided for in the preceding item)" [Article 2 (1) of Act No. 127 of April 13, 1959, as last amended by Act No. 16 of April 18, 2008]; ii) Switzerland: "A trade mark is a sign capable of distinguishing the goods or services of one enterprise from those of other enterprises" [Article 1(1) of Federal Law of August 28, 1992 on the Protection of Trademarks and Indications of Source (status as of July 1, 2011)]; iii) Australia: "A *trade mark* is a sign used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person" [Sect. 17 of Trade Marks Act 1995 (consolidated as of 14 January 2011)]; iv) USA: "The term "trademark" includes any word, name, symbol, or device, or any combination thereof—(1) used by a person, or (2) which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown" [Sect. 45 of U. S. Trademark Law, 15 U.S.C. §§ 1051 et seq. (05.07.1946)]; c) trade mark laws of developing countries: i) Indonesia: "Trade Mark shall mean a Mark that is used on goods traded by a person or by several persons jointly or a legal entity to distinguish the goods from other goods of the same kind" [Article 1 (2) of Law No. 15 of August 1, 2001, regarding Marks]; ii) Nigeria: "'trade mark' means, except in relation to a certification trade mark, a mark used or proposed to be used in relation to goods for the purpose of indicating, or so as to indicate, a connection in the course of trade between the goods and some person having the right either as proprietor or as registered user to use the mark, whether with or without any indication of the identity of that person, and means, in relation to a certification trade mark, a mark registered or deemed to have been registered under Section 43 of this Act" [Article 67 (1) of Trade Marks Act (Chapter 436) (01.01.1965)]; iii) India: ""trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours" [Article 2 (1) (zb) of The Trade Marks Act, 1999]; iv) China: "Any visible sign that can serve to distinguish the goods of a natural person, legal person, or other organization from those of another, including any work, design, letter of the alphabet, numeral, three-dimensional symbol and color combination, or any combination of the above, may be made a trademark for application for registration" [Article 8 of Trademark Law of the People's Republic of China (23.08.1982)]; v) Madagascar: "'mark' shall mean any visible sign

Agreement, which is the first multilateral treaty that defines trademarks in a binding way for the Contracting Parties.[4] Indeed, according to those definitions, the legal protection of the right to the trademark is based on, firstly, the existence of a "sign" and, secondly, the "distinctiveness" of the sign in question.[5]

It follows from the establishment of the legal protection of the trademark right in the distinctiveness of signs that, in the spirit of modern national legal systems and also of the TRIPs Agreement, trademarks are principally perceived as distinctive features of products and services. More specifically, both modern national legislators and the Contracting Parties to the TRIPs Agreement were, evidently, aware of the fact that the role of the trademark in a modern market economy is not limited to that of a distinctive feature of products and services. A trademark acquires more and more importance for its owner as a guarantee of the quality of the products traded or the services provided under the trademark; it operates as a communication channel with the consumers, as an investment asset, or even as a means of advertising.[6] However, in accordance with the trademark definitions provided by both the current national laws on trademarks and the TRIPs Agreement, a sign may be protected as a trademark irrespective of the economic value that it represents, that is to say the amount of investment that such a sign represents as a means of communication of the manufacturer or trader of a product or the provider of a service to the consumer, as a guarantee of a stable quality level or as a tool promoting the advertising of a product or a service. On the contrary, in the perception of modern national legislators and the Contracting Parties of the TRIPs Agreement, the recognition of the legal protection of a sign as a trademark is solely dictated by its ability to make commercial transactions easier as a distinctive feature of a product or a service, that is, its ability to indicate the origin of a product or service from a specific undertaking and to distinguish one product or service from the products and services of other undertakings ("origin function" or "primary function" or "essential function" or

intended and capable of distinguishing the goods or services of one enterprise from those of other enterprises" [Article 55 (1) (i) of Ordinance No. 89-019 Establishing Arrangements for the Protection of Industrial Property (of July 31, 1989)]; v) Liberia: "'mark' means any visible sign capable of distinguishing the goods ('trademark') or services ('service mark') of an enterprise" [Article 39 (i) of Industrial Property Act (20.03.2003)] (Source: WIPO).

[4] "Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods" of 15.12.1993. The Agreement entered into force on 01.01.1995. Pursuant to the first subparagraph of Article 15 (1) of the TRIPs Agreement, "Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trade mark".

[5] According to Ladas [Stephen P. Ladas (1975), Patents, Trade marks, and Related Rights, National and International Protection, Vol. II, p. 969 (Harvard University Press, Cambridge, Massachusetts)], the uniformity in the basic identifying features of trademarks, as these derive from the definitions of trademarks included in the several national trademark laws, reflects the "basic uniformity in objectives and a considerable amount of harmonization in essentials" of trademark laws on an international level.

[6] Cf. Case C-487/07, *L'Oréal SA, Lancôme parfums et beauté & Cie SNC and Laboratoire Garnier & Cie v Bellure NV, Malaika Investments Ltd and Starion International Ltd*, [2009] ECR I-5185, para. 58.

"main function" of trademarks; "Herkunftsfunktion" or "Hauptfunktion" in German). The other functions of an economic nature that trademarks may develop in a developed market economy (trademark's goodwill[7]), namely mainly the "quality function" or "guarantee function" ("Qualitätsfunktion" in German)[8] and the "investment function" or "advertising function" ("Werbefunktion" in German),[9]

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[7] "Goodwill" was defined in 1810 by Lord Eldon as "the value of that probability, that old customers will resort to the old place" [see B.E. Cookson (1991), The Significance of Goodwill, 7 Eur Intellect Prop Rev 248]. For the economic value of trademarks in general, see Andreas Papandreou (1956), The Economic Effects of Trade Marks, 44 Calif Law Rev 503; André Zeug (1986), Die wirtschaftlichen Funktionen von Waren– und Dienstleistungszeichen; Frauke Henning-Bodewig & Annette Kur (1988), Marke und Verbraucher: Funktionen der Marke in der Marktwirtschaft, Band I, Grundlagen (VCH, Weinheim); Friedrich-Karl Beier & Friedrich-Karl Krieger (1976), Wirtschaftliche Bedeutung, Funktionen und Zweck der Marke (68) Bericht erstattet im Namen der Landesgruppe der Bundesrepublik Deutschland, 25 GRUR Int 125; Julius Lunsford (Jr.) (1974), Consumers and Trademarks: The Function of Trademarks in the Market Place, 64 Trademark Rep 75; Nicholas S. Economides (1988), The Economics of Trademarks, 78 Trademark Rep 523; Roger van den Bergh & Roger Lehmann (1992), Informationsökonomie und Verbraucherschutz im Wettbewerbs- und Warenzeichenrecht, 41 GRUR Int 588; William Cornish & Jennifer Philips (1982), The Economic Function of Trade Marks: An Analysis With Special Reference to Developing Countries, 13 IIC 41.

[8] "Guarantee function of the trademark" means the guarantee that the trademark provides to consumers that a product or service bearing that trademark meets their expectations in terms of quality or other features (e.g., specifications of use, function, or luxury, equipment, guarantee). For the "guarantee function" of trademarks and its legal protection, see, *inter alia*, Frauke Henning-Bodewig & Annette Kur (1988), Marke und Verbraucher: Funktionen der Marke in der Marktwirtschaft, Band I, Grundlagen, p. 6 (VCH, Weinheim); Karl-Heinz Fezer (2009), Markenrecht, Kommentar zum Markengesetz, zur Pariser Verbandsübeinkunft und zum Madrider Markenabkommen, Dokumentation des nationalen, europäischen und internationalen Kennzeichenrechts, p. 8, Nr. 8 (4 Auflage, Beck, München); Michael-Theodoros Marinos (2007), Trade Mark Law, pp. 14–15 and 17, Nr. 36 and 42 (P. N. Sakkoulas Publications, Athens) (in Greek); Nikolaos Grigoriadis (2006), Trademark Licensing Agreements and Restrictions of Competition, pp. 37–41 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek); Nikolaos Rokas (2004), Industrial Property, pp. 95–96, Nr. 16–17 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek); Oliver Krauß (1999), Die internationale Erschöpfung des Markenrechts unter Berücksichtigung der Gesetzgebung und der Markenfunktionen, pp. 18–20 (Eul, Lohmar/Köln); Thanasis Liakopoulos (2000), Industrial Property, pp. 321–322 (5th edition, P. N. Sakkoulas Publications, Athens) (in Greek); Vasilis Antonopoulos (2005), Industrial Property, pp. 372–374, Nr. 446–447 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek).

[9] "Advertising function of the trademark" means the ability of the trademark to become, through its use in advertising promotion of a product or service, the symbol of the reputation of an undertaking. For the "advertising function" of trademarks and its legal protection, see, *inter alia*, Frauke Henning-Bodewig & Annette Kur (1988), Marke und Verbraucher: Funktionen der Marke in der Marktwirtschaft, Band I, Grundlagen, p. 6 (VCH, Weinheim); Karl-Heinz Fezer (2009), Markenrecht, Kommentar zum Markengesetz, zur Pariser Verbandsübeinkunft und zum Madrider Markenabkommen, Dokumentation des nationalen, europäischen und internationalen Kennzeichenrechts, pp. 82–83, Nr. 9 (4 Auflage, Beck, München); Michael-Theodoros Marinos (2007), Trade Mark Law, pp. 15–16 and 18, Nr. 37–38 and 43–44 (P. N. Sakkoulas Publications, Athens) (in Greek); Nikolaos Grigoriadis (2006), Trademark Licensing Agreements and Restrictions of Competition, pp. 24–37 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek); Nikolaos Rokas (1997), Functional Changes of the Trade Mark Right, EEmpD 443 (in Greek);

may certainly be legally protected, either fully or partially, in (national or supra-national) legal orders. However, the only criterion for the protection of a sign under trademark law is the distinctive character of the sign.

Realising the necessity to legally protect the use of signs that can serve to link the mind of consumers of a product offered for sale in a market to a specific industrial or commercial undertaking coincides chronologically with the industrial revolution and the development of competitive markets.[10] However, the fact that trademarks may be used as means of controlling the circulation of goods between national markets was also soon realised. As Judge *Clauson* characteristically underlined in the judgment in *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton [1930],* a trademark is "a badge of origin" and not "a badge of control".[11] This remark, despite the many decades that have elapsed since its submission, fully retains its importance because it is a significant guideline in the effort to deal with the problem that arises from the conflict between the generally accepted, on an international level, principle of territoriality of trademark rights and the much discussed, again worldwide, principle of free movement of goods. The former principle expresses the strict territorial nature of the exclusive and absolute protection of the right to the trademark,[12] whereas the latter reflects the international nature of commercial transactions.

According to the principle of territoriality ("Territorialitätsprinzip", in German), which governs worldwide the legal protection not only of trademark rights but also of all intellectual property rights (industrial property rights and copyright), the protection of the right to a trademark is defined by the law of the country where the holder of the trademark seeks protection and expands solely within the borders

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Nikolaos Rokas (1999), Exploitation and Protection of Advertising Value, EEmpD 1 (in Greek); Nikolaos Rokas (2004), Industrial Property, pp. 96–97, Nr. 18–20 (Ant. N. Sakkoulas Publications, Athens-Komotini) (in Greek); Oliver Krauß (1999), Die internationale Erschöpfung des Markenrechts unter Berücksichtigung der Gesetzgebung und der Markenfunktionen, pp. 21–23 (Eul, Lohmar/Köln); Thanasis Liakopoulos (2000), Industrial Property, pp. 322–323 (5th edition, P. N. Sakkoulas Publications, Athens) (in Greek); Vasilis Antonopoulos (2005), Industrial Property, pp. 370–372, Nr. 445 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek).

[10] George Pickering (1998), Trade mark in Theory and Practice, p. 1 (Hart Publishing, Oxford). Up until around the seventeenth century, the settlement of disputes arising from the use of trademarks was not actually the concern of the general law but rather of the so-called guild jurisprudence. For the historic development of the legal protection of the trademark, see Benjamin G. Paster (1969), Trade Marks – Their Early History, 59 Trademark Rep 551; Frank I. Schechter (1925), The Historical Foundations of the Law Relating to Trade Marks (Columbia University Press, New York); Gerald Ruston (1955), On the Origin of Trade Marks, 45 Trademark Rep 127; Keith M. Stolte (1998), How Early Did Anglo-American Trademark Law Begin? An Answer to Schechter's Conundrum, 8 Fordham Intellect Prop Media Entertain Law J 505.

[11] See Warwick Rothnie (1993), Parallel Imports, p. 19 n. 40 (Sweet & Maxwell, London).

[12] For the terms "exclusive protection" and "absolute protection" see Dionysia Kallinikou (2005), Copyright & Related Rights, pp. 21–22 (2nd edition, P. N. Sakkoulas Publications, Athens) (in Greek). For the theories suggested to support the protection of intellectual property with absolute and exclusive rights, see Efi Kinini (2004), The refusal to grant licences to use intangible assets in the free competition law, pp. 7–10 (Ant. N. Sakkoulas Publications, Athens-Komotini).

of the territory of the country where—on the basis of registration or use[13]—the aforementioned right was acquired.[14] The registration of the same sign as a trademark in more countries leads to the creation of a batch of national trademark rights, which, in principle, are legally independent of each other. The requirements for acquisition, the content, and the protection level of the right to a trademark are regulated by the law of the country where protection is sought.[15] So, e.g., the refusal of registration or the cessation of protection of a sign as a trademark in a certain country does not imply the refusal of registration or the cessation of protection of the same sign as a trademark in another country. Moreover, a domestic trademark cannot be infringed by actions taking place abroad, and, vice versa, a foreign trademark cannot be infringed by actions taking place domestically.[16] Finally, the exercise of a domestic trademark right does not entail, in principle, legal consequences for trademark rights acquired abroad.[17]

The historical roots of the principle of territoriality of industrial property rights lie in the privileges granted by princes for the protection of local economies, which, of course, was not possible to apply beyond the local borders.[18] Nevertheless, the territorial character of legal protection is not a special feature of industrial property rights. The principle of territoriality governs the largest part of the law, given that it stems directly from the spatial aspect of the concept of sovereignty, which is the

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[13] With regard to the systems for the acquisition of trademark rights, see Vasilis Antonopoulos (2005), Industrial Property, pp. 183–184, Nr. 172–173 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek).

[14] Friedrich-Karl Beier (1970), Territoriality of Trademark Law and International Trade, 1 IIC 48, 59.

[15] Friedrich-Karl Beier (1970), Territoriality of Trademark Law and International Trade, 1 IIC 48, 59; Vasilis Antonopoulos (2005), Industrial Property, p. 68, Nr. 71 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek).

[16] See *supra* n. 15.

[17] See *supra* n. 15.

[18] See *supra* n. 15. For the principle of territoriality of industrial property rights, see Alois Troller (1952), Das internationale Privat– und Zivilprozessrecht im gewerblichen Rechtsschutz und Urheberrecht (Verl. für Recht und Gesellschaft, Basel); Curtis A. Bradley (1997), Territorial Intellectual Property Rights in a Age of Globalism, 37 Va J Int Law 505; Eugen Ulmer (1975), Die Immaterialgüterrechte im internationalen Privatrecht (Heymann, Köln); Michael-Theodoros Marinos (2008), The Principle of Territoriality in Intellectual Property Law, ChrID 481 (in Greek); Spyridon Vrellis (1972), Trademark in Private International Law (in Greek); Thanasis Liakopoulos (1978), The problem of international private law in the field of competition law and industrial property law, EEmpD 161 (in Greek); Thanasis Liakopoulos (2000), Industrial Property, pp. 164–188 (5th edition, P. N. Sakkoulas Publications, Athens) (in Greek); Vasilis Antonopoulos (2005), Industrial Property, pp. 67–79, Nr. 70–80 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek), and specifically with regard to trademark rights, Graeme Dinwoodie (2004), Trademarks and Territory: Detaching Trademark Law from the Nation-State, 41 Houst Law Rev 885. It is noted that the principle of territoriality of trademark rights has not always been accepted as a fundamental principle of trademark law. Up until the first decades of the previous century, the case law of European countries' courts and the US courts recognised the principle of universality ("Universalitätsprinzip" in German) of the rights conferred by the trademark. See *infra* Sect. 1.4.2.3.

base of international legal system.[19] It is not only the typical arguments, such as respect of territorial jurisdiction of administrative or judicial bodies of each state, the enforceability of judgments pronounced by national courts, or comity-grounded concerns of reciprocal overreaching, that advocate the adoption of that principle in the field of industrial property protection.[20] It is also special reasons that advocate it, such as the interest of each state to solely regulate industrial property, due to the social and economic importance it bears, namely its importance for the specific economic system and the policies of economic and social development that each state follows.[21]

With regard to the principle of free movement of goods, it must be noted, first of all, that there is no generally valid definition available.[22] However, the ideal model of application of the previously mentioned principle refers to a situation where goods can circulate and be traded across national markets without any restrictions, as it happens with the circulation and trading of goods between markets located in the same national territory.[23] This means that the application of the above-mentioned principle at full length requires the total obliteration of any kind of restrictions (customs, taxes, regulations, currency exchanges, etc.), which could make impossible or more expensive or, at least, could hinder, in any way, the imports and exports of goods between countries, regardless of the legal basis of the said restrictions[24] or of whether the said restrictions arise within the markets or at the national borders of importing and/or exporting countries.[25] On a practical level,

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[19] According to a famous law quote: "When in Rome, do as Romans do".

[20] For the principle of territoriality as a general rule of law, see Symeon Symeonides (2004), Territoriality and Personality in Talia Einhorn & Kurt Siehr (ed.), Intercontinental Cooperation Through Private International Law: Essays in Memory of Peter Nygh, pp. 401–433 (T.M.C. Asser Press).

[21] Thanasis Liakopoulos (2000), Industrial Property, pp. 165 (5th edition, P. N. Sakkoulas Publications, Athens) (in Greek). As has been noted, the principle of territoriality does not facilitate the growth of international trade, as it obliges undertakings operating in more than one country to acquire more than one industrial property right. See Vasilis Antonopoulos (2005), Industrial Property, pp. 67–68, Nr. 70 (2nd edition, Sakkoulas Publications, Athens-Thessaloniki) (in Greek). However, the conclusion of International Treaties in the field of intellectual property rights has restricted the scope of the principle of territoriality of the said rights. See Graeme Dinwoodie (2009), Developing a Private International Intellectual Property Law: The Demise of Territoriality?, 51 Wm & Mary L Rev 711.

[22] So also Marc Stucki (1997), Trade marks and Free Trade, p. 13 (Stämpfli, Bern).

[23] See Marc Stucki (1997), Trade marks and Free Trade, p. 13 (Stämpfli, Bern).

[24] Limitations placed on the implementation of the principle of free movement may be imposed either by national legislators or by private parties applying laws or regulations. See Marc Stucki (1997), Trade marks and Free Trade, p. 13 n. 27 (Stämpfli, Bern).

[25] For an excellent review of the historic and theoretical aspects of the principle of free movement, see Edelgard Mahant & Xavier De Vanssay (1994), The Origins of Customs Unions and Free Trade Areas, 2–3 Revue d'integration européenne/Journal of European Integration 181.

however, the scope of the principle of free movement depends on the degree of integration pursued by the economic union of the states among which it is applied.[26]

Nevertheless, a significant push towards the liberalisation of the cross-border trade on an international level was given when the World Trade Organization (WTO) was founded. Founding the WTO was the utmost achievement of the Uruguay Round of Multilateral Trade Negotiations, held in the framework of the General Agreement on Tariffs and Trade (GATT). Within the framework of GATT/WTO law that resulted, the following are aspects of the principle of free movement of goods: the principle of the General Elimination of Quantitative Restrictions and Equivalent Measures (Article XI of the GATT 1994), the principle of the Most-Favoured-Nation Treatment ("MFN", Article I of the GATT 1994), and the principle of National Treatment on Internal Taxation and Regulation ("NT", Article III of the GATT 1994).

When juxtaposing the semantic content of the principle of territoriality of trademark rights and the principle of free movement of goods, an inherent conflict arises between those two principles.[27] By virtue of the principle of territoriality of trademark rights, the rights to import and sell in a certain national market goods bearing a trademark seems to be reserved only to the trademark proprietor in that market. However, such a reservation could frustrate the principle of free movement when goods are imported and marketed without the consent of the owners of their trademarks in the importing countries. This finding is confirmed by the question of the legality of parallel imports of trademarked goods, which has always been one of the most distinctive areas of discussion in legal science on an international level and which is the objective of this book.[28]

Indeed, let us assume that an undertaking in country A (hereinafter: "U") manufactures the product X and markets it under a trademark through an authorised distribution network in the same country. We also assume that the same product is manufactured and marketed under the same trademark in country B by a subsidiary of U (hereinafter: "S"). Finally, we assume that the same product is marketed under the same trademark in country C by an exclusive distributor of U. U is the holder of

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[26] For a classification of the (regional) economic unions of states based on the degree of the economic integration they seek, see Brigitte Lévy (1994), The European Union and NAFTA: Two Regional Economic Blocs in a Complex Globalized and Interdependent International Economy, 2–3 Revue d'integration européenne/Journal of European Integration 212, 213–214.

[27] The inherent conflict between the principle of territoriality of trademark rights and the principle of the free movement of goods was already observed in the middle of the twentieth century, when the cross-border trade started to bloom. On the said conflict, characteristic are the studies by Alois Troller (1960), Die territoriale Unabhängigkeit der Markenrechte im Warenverkehr, 9 GRUR Int 244; Alois Troller (1967), Markenschutz und Landesgrenzen, 16 GRUR Int 261; Friedrich-Karl Beier (1970), Territoriality of Trademark Law and International Trade, 1 IIC 48; Martin Röttger (1964), Das Territorialitätsprinzip im Warenzeichenrecht, 13 GRUR Int 125; Rolf Birk (1964), Die Grenzen des Territorialitätsprinzips im Warenzeichenrecht, 17 NJW 1596.

[28] The question about the positive or negative impact of the parallel importation phenomenon on the global social-economic welfare is also one of the most distinctive areas of concern for the economic science. See *infra* Sect. 1.3.1.

the trademark borne by the product X in countries A and C, while S acquired the trademark borne by the product X in country B either on the basis of an assignment by U or, in any event, with the latter's consent. A quantity of the product X marketed in county B is imported and is made available for sale in the market of country A by a trader that does not form part of the distribution network authorised by U. Also, a quantity of the product X marketed in country C is imported and is made available for sale in the market of country B by a trader that does not form part of the distribution network authorised by U either. The main question that arises in the above cases is whether U and S can oppose the aforementioned imports.

The fact that the rights to the trademark borne by the imported goods in the exporting and importing countries are legally independent of each other advocates a positive answer to the question. In other words, a positive answer to the question is supported by the fact that the possibility of invoking the trademark right by which the imported goods are protected to prohibit their marketing in the importing country is not dependent, at least in principle, on the possibility of prohibiting the marketing of the goods under trademark law in the exporting country. On the contrary, a negative answer is suggested, firstly, by the fact that the imported goods are genuine, i.e. the fact that the goods in question and the goods bearing the same mark that are distributed directly in the importing country were manufactured under the control of a single body, namely the group to which U and S belong and, secondly, by the fact that the imported goods were marketed in the exporting country by an undertaking using the trademark borne by the goods with the consent of the trademark proprietor in the importing country (S) (regarding the goods imported from country B to country A) or by the fact that the undertaking that marketed the goods in the exporting country (exclusive distributor of U) and the trademark proprietor in the importing country (S) use the trademark borne by the goods with the consent of a third undertaking (U) (regarding the goods imported from country C to country B). In other words, a positive answer to the above question is suggested by the finding that the marketing of the imported products cannot cause an adverse effect on the trademark's origin function, given that the goods are genuine and the use of the trademark in both the exporting and importing countries is subject to a single control.

In the light of the above example, the issue of the legality of parallel imports poses a question about whether a trademark holder can impede or, in any case, control the importation and marketing by an independent trader, namely a trader that does not belong to the exclusive or selective distribution network organised by the trademark holder, of goods bearing the trademark, even if the goods are genuine and have been sold to the said independent trader either by the trademark holder or by an authorised (by the trademark holder) trader. As will be analysed in the relevant section below,[29] the issue of the legality of parallel imports of trademarked goods is exactly caused by the territorial nature of the exclusive protection of the

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[29] See *infra* Sect. 1.4.1.

right to the trademark, which allows the same person or persons economically or legally connected to hold a trademark concerning the same sign in many countries at the same time. As has been rightly pointed out, the previously mentioned issue poses, in essence, a question about whether and to what extent the trademark can be admitted as a barrier to international trade.[30]

The classic rule developed internationally to solve the issue of the legality of parallel imports of trademarked goods is the principle of exhaustion of rights. According to that rule, which can be found in three types (rule of national, regional, and international exhaustion of rights), the owner of a trademark cannot rely on the rights conferred by the trademark in order to prohibit the parallel importation of goods bearing the trademark once the goods have been put on the market by himself or with his consent within the importing country (rule of national exhaustion of rights) or within a union of nations to which the importing country belongs (rule of regional exhaustion of rights) or, finally, within any country (rule of international exhaustion of rights).

The object of this book is to investigate the problem of the legality of parallel imports of trademarked goods under three areas, GATT/WTO Law, European Union Law and, finally, the law of the ten major trading partners of the European Union. The issues to be examined are summarised as follows.

Part I (Chap. 1) consists of a general approach to the phenomenon of parallel importation and of a presentation of the theories that have been suggested to solve the problem of the legality of parallel imports of trademarked goods. In particular, a general outline of the phenomenon of parallel importation is given, the favourable conditions for the existence of parallel imports are investigated, and, moreover, the arguments suggested both in favour and against parallel imports in economic and legal sciences are analysed. In addition, the cases of parallel imports of trademarked goods are categorised and the theories proposed to solve the problem of the legality of such imports are analysed. Finally, a critical consideration of those theories is attempted, and then the rule of exhaustion of rights is proposed as the most effective instrument to deal with the problem in question.

Part II considers the issue of exhaustion of trademark rights in the light of the provisions of GATT/WTO Law related to the problem of the legality of parallel imports. In particular, the provisions of the TRIPs Agreement and of the GATT 1994 relevant to the problem of the legality of parallel imports are reviewed in order to see whether those Agreements oblige the Contracting Parties to adopt any rule of exhaustion of trademark rights (national, regional, or international exhaustion) or, in the event there is no such obligation, whether a specific rule of exhaustion of trademark rights appears to be more compatible with the legal systems established by those Agreements.

Part III consists of five chapters (Chaps. 6–11 of the book).

Chapter 6 is an introduction to Part III.

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[30] So also Marc Stucki (1997), Trade marks and Free Trade, p. 8 (Stämpfli, Bern).

Chapter 7 reviews the legal treatment of parallel imports of trademarked goods in the European Economic Community (now European Union), till the adoption of Directive 89/104/EEC. In particular, the principles developed by the ECJ for the investigation of the legality of the exercise of trademark rights under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) are analysed.

Chapter 8 describes the current EU legal framework for the legality of parallel imports of trademarked goods, that is to say the EU rules governing the legality of such imports into Member States of the European Union are identified [Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009]. Moreover, it provides the context on which the interpretation of the previously mentioned Articles and the national implementing provisions (in relation to Article 7 of Directive 2008/95/EC) must be based.

Chapter 9 analyses, in the light of the ECJ's case law, the conditions laid down for the application of the exhaustion of rights rules mentioned within the EU legal framework applicable to trademarks, namely the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009. In particular, it examines the concept of "trademarked good", the concept of "putting on the market" of a trademarked good, the geographical scope of those provisions, and, finally, the cases where the putting on the market of a trademarked good is done, in accordance with those provisions, by the owner of the trademark or with his consent. Moreover, special issues regarding the application of the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009 are considered, in particular the legal consequences of the rules contained in the above-mentioned provisions, the possibilities of recognising a regime of international exhaustion of trademark rights under the above-mentioned provisions, the possibility of a conflict between the above-mentioned provisions and Articles 101 and 102 of the TFEU, and, finally, the allocation of the burden of proof in cases concerning the legality of parallel imports of trademarked goods.

Chapter 10 analyses, in the light of the ECJ's case law, the cases in which the application of the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 is precluded, that is to say the semantic content of the term "legitimate reasons" used in Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.

Chapter 11 is a conclusion chapter for Part III.

Finally, in Part IV, a presentation of the regimes of exhaustion of trademark rights that are recognised in the current ten most significant states-trading partners of the European Union is attempted.

The book concludes with Part V (Chap. 15).

Thessaloniki, Greece Lazaros G. Grigoriadis

Abbreviations

AIPLA Q J	AIPLA Quarterly Journal
AIPPI	Association Internationale pour la Protection de la Propriété Intellectuelle
Akron Law Rev	Akron Law Review
All ER	All England Law Reports
Am Bus Law J	American Business Law Journal
Am Econ Rev	American Economic Review
Am J Int Law	American Journal of International Law
Am Univ Law Rev	American University Law Review
Antitrust Law Econ Rev	Antitrust Law & Economics Review
Antitrust Law J	Antitrust Law Journal
BB	Betriebs-Berater
Bd.	Band (Volume)
Berkeley Technol Law J	Berkeley Technology Law Journal
BGH	Bundesgerichtshof (German Supreme Court)
BGHZ	Amtliche Sammlung der Entscheidungen des BGH in Zivilsachen
Brook J Int Law	Brooklyn Journal of International Law
C.C.S.D.N.Y.	Circuit Court, Southern District of New York
C.F.R.	Code of Federal Regulations
Calif Law Rev	California Law Review
Can Bus Law J	Canadian Business Law Journal
Canterbury Law Rev	Canterbury Law Review
Cardoso Arts Entertain Law J	Cardozo Arts & Entertainment Law Journal
Cardozo Law Rev	Cardozo Law Review
Catholic Univ Law Rev	Catholic University Law Review
Chic Kent Law Rev	Chicago-Kent Law Review
ChrID	Chronika Idiotikou Dikaiou (in Greek)
Cir.	Circuit
Cl.	Clause

Common Mark Law Rev	Common Market Law Review
Columbia Bus Law Rev	Columbia Business Law Review
Columbia J Eur Law	Columbia Journal of European Law
Columbia J Transnatl Law	Columbia Journal of Transnational Law
Columbia Law Rev	Columbia Law Review
Conn J Int Law	Connecticut Journal of International Law
Cornell Law Rev	Cornell Law Review
D.C.	District Court/District of Columbia
D.L.R.	Dominion Law Reports
DB	Der Betrieb
DEE	Dikaio Epixeiriseon & Etairion (in Greek)
Dickinson J Int Law	Dickinson Journal of International Law
DPA	Deutsches Patentamt
Duke J Comp Int Law	Duke Journal of Comparative & International Law
DZWiR	Deutsche Zeitschrift für Wirtschafts- und Insolvenzrecht
EBLR	European Business Law Review
EC	European Community (now European Union)
ECJ/Court	European Court of Justice
Ed.	Editor(s)
ed.	Editor/s
EEA	European Economic Area
EEC	European Economic Community (now European Union)
EEED	Elliniki Epitheorisi Europaikou Dikaiou (in Greek)
EEmpD	Epitheorisi Emporikou Dikaiou (in Greek)
EFTA	European Free Trade Association
EllDni	Elliniki Dikaiosini (in Greek)
Emory Law J	Emory Law Journal
EuR	Europarecht
Eur Competition Law Rev	European Competition Law Review
Eur Econ Rev	European Economic Review
Eur Intellect Prop Rev	European Intellectual Property Review
Eur Law Rev	European Law Review
EuZW	Europäische Zeitschrift für Wirtschaftsrecht
EWCA Civ	England and Wales Court of Appeal (Civil Division)
EWHC (ch)	High Court of England and Wales (Chancery Division)
EWS	Europäisches Wirtschafts- und Steuerrecht
F. 2d	Federal Reporter, Second Series
F. 3d	Federal Reporter, Third Series
F. Supp.	Federal Supplement

F.	Federal Reporter
Fla Int Law J	Florida International Law Journal
Fla.	Florida
Fletcher Forum World Aff J	The Fletcher Forum of World Affairs Journal
Fordham Corp Law Inst	Fordham Corporate Law Institute
Fordham Int Law J	Fordham International Law Journal
Fordham Intellect Prop Media Entertain Law J	Fordham Intellectual Property, Media and Entertainment Law Journal
Fordham Law Rev	Fordham Law Review
FS	Festschrift
FSR	Fleet Street Reports
GATT 1994	General Trade Agreement on Trade and Tariffs 1994
Geo Wash Int Law Rev	George Washington International Law Review
Geo Wash J Int Law Econ	George Washington Journal of International Law and Economics
GNP	Gross National Product
Gonzaga Law Rev	Gonzaga Law Review
GRUR Int	Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil
GRUR	Gewerblicher Rechtsschutz und Urheberrecht
Harv Int Law J	Harvard International Law Journal
Harv Law Rev	Harvard Law Review
Hastings Commun Entertain Law J	Hastings Communications and Entertainment Law Journal
Hofstra Law Rev	Hofstra Law Review
Houst J Int L	Houston Journal of International Law
Houst Law Rev	Houston Law Review
Hrsg.	Herausgeber (editor)
IDEA	The Journal of Law and Technology
IIC or Int Rev Intellect Prop Competition Law	International Review of Intellectual Property and Competition Law
Indiana Law J	Indiana Law Journal
Int Comp Law Q	International and Comparative Law Quarterly
Int Company Commer Law Rev	International Company and Commercial Law Review
Int'l Law	The International Lawyer (περιοδικό)
Int Rev Law Econ	International Review of Law and Economics
Intellect Prop J	Intellectual Property Journal
Intellect Prop Q	Intellectual Property Quarterly
IPRax	Praxis des Internationalen Privat- und Verfahrensrechts
J. Contemp. Legal Issues	Journal of Contemporary Legal Issues

J Int Econ Law	Journal of International Economic Law
J Law Econ	Journal of Law & Economics
J Pat Trademark Off Soc	Journal of the Patent and Trademark Office Society
Jr/Jnr.	Junior
JWT	Journal of World Trade
JZ	Juristenzeitung
Ky Law J	Kentucky Law Journal
Law Policy Int Bus	Law and Policy in International Business
Loy Los Angel Int Comp Law Rev	Loyola of Los Angeles International and Comparative Law Review
Loy Los Angel Law Rev	Loyola of Los Angeles Law Review
MA	der Markenartikel
Managing Intellect Prop	Managing Intellectual Property
Marquette Intellect Prop Law Rev	Marquette Intellectual Property Law Review
Maine Law Rev	Maine Law Review
Minn. L. Rev.	Minnesota Law Review
Miss Law Rev	Missouri Law Review
Mitt	Mitteilungen der Deutschen Patentanwälte
MLJ	Malayan Law Journal
Mod Law Rev	The Modern Law Review
n.	Footnote
N C J Int Law Commer Regul	North Carolina Journal of International Law and Commercial Regulation
N Y Law Sch J Int Comp L	New York Law School Journal of International and Comparative Law
N Y Univ J Int Law Policy	New York University Journal of International Law and Policy
NIR	Nordiskt immateriellt rättsskydd
NJW	Neue Juristische Wochenschrift
NJW-RR	Neue Juristische Wochenschrift – Rechtsprechungsreport Zivilrecht
Northwest J Int Law Bus	Northwestern Journal of International Law & Business
Notre Dame Law Rev	Notre Dame Law Review
Notre Dame L.	Notre Dam Lawyer
Nr./No.	Number
ÖBL	Österreichische Blätter
OGH	Der Oberste Gerichtshof (Austrian Supreme Court)
ÖJZ	Österreichische Juristen-Zeitung
OLG	Oberlandesgerichtshof
OLGR	Oberlandesgericht – Report
Pac Econ Rev	Pacific Economic Review
Pac Law J	Pacific Law Journal

Pac Rim Law Policy J	Pacific Rim Law & Policy Journal
Pace Law Rev	Pace Law Review
RabelsZ	Rabels Zeitschrift für ausländisches und internationales Privatrecht
RCP	Report of Patent, Design and Trade Mark Cases
RG	Reichsgericht (the old name of the German Supreme Court)
RGSt	Amtliche Sammlung der Entscheidungen des Reichsgerichts in Strafsachen
RGZ	Amtliche Sammlung der Entscheidungen des Reichsgerichts in Zivilsachen
RIW/AWD	Recht der Internationalen Wirtschaft/ Außenwirtschaftsdienst des Betriebsberaters
RIW	Recht der Internationalen Wirtschaft
RTD Com.	Revue trimestrielle de droit commercial et de droit économique
RTDE	Revue trimestrielle de droit européen
Rutgers L. Rev.	Rutgers Law Review
S. Rep. No.	Senate Report No.
S.D.	Southern District
S.L.T.	Scots Law Times
Santa Clara Comput High Technol Law J	Santa Clara Computer and High Technology Law Journal
Sec.	Section
Seton Hall Legis J	Seton Hall Legislative Journal
South Calif Law Rev	Southern California Law Review
South Ill Univ Law J	Southern Illinois University Law Journal
Southwest Univ Law Rev	Southwestern University Law Review
Syracuse J Int Law Commer	Syracuse Journal of International Law and Commerce
SZIER	Schweizerische Zeitschrift für internationales und europäisches Recht
SZW	Schweizerische Zeitschrift für Wirtschaftsrecht
TEU	Treaty on the European Union
Tex Int Law J	Texas International Law Journal
TFEU	Treaty on the Functioning of the European Union
Trademark Rep	The Trademark Reporter
Transnat'l Law	The Transnational Lawyer
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods
Univ Chic Law Rev	University of Chicago Law Review

Univ Pa J Int Bus Law	University of Pennsylvania Journal of International Business Law
Univ Pa J Int Econ Law	University of Pennsylvania Journal of International Economic Law
Univ Pa Law Rev	University of Pennsylvania Law Review
Univ Toledo Law Rev	University of Toledo Law Review
u.a.	Unter anderem (inter alia)
U.S.	United States Reports
U.S.C.	United States Code
U.S.C.C.A.N.	United States Code Congressional and Administrative News (U.S.C.C.A.N.)
U.S.P.Q. 2d	The United States Quarterly, Second Series
U.S.P.Q	United States Patents Quarterly
UCLA Law Rev	UCLA Law Review
UCLA Pac Basin Law J	UCLA Pacific Basin Law Journal
Union	European Union
v.	Versus
Va J Int L	Virginia Journal of International Law
Va L Rev	Virginia Law Review
Verl.	Verlag (editions)
Vol.	Volume
Wake Forest Law Rev	Wake Forest Law Review
Wash Law Rev	Washington Law Review
Washburn Law J	Washburn Law Journal
WBl	Wirtschaftsrechtliche Blätter
William Mitchell Law Rev	William Mitchell Law Review
WIPO	World Intellectual Property Organization
Wm & Mary L Rev	William and Mary Law Review
WRP	Wettbewerb in Recht und Praxis
WTO	World Trade Organization
WuW	Wirtschaft und Wettbewerb
WZG	Warenzeichhengesetz (German Trade mark Act of 1936.
Yale Law J	Yale Law Journal
ZGR	Zeitschrift für Unternehmens- und Gesellschaftrecht
ZHR	Zeitschrift für das gesamte Handelsrecht und Wirtschaftsrecht

Contents

Part I
Introduction

Chapter 1
Parallel Imports of Trademarked Goods: A General Approach

1.1 The Phenomenon of Parallel Importation

A "parallel import" (in German, "Parallelimport") is the importation, offer for sale, and sale of goods that are genuine and that have been legally put on the market for the first time by a trader that does not belong to the (exclusive or selective) distribution system authorised by the manufacturer (parallel importer).[1] In American terminology, goods imported in parallel are referred to as "gray market goods". Also, parallel imported goods are often described in legal doctrine and case law as "unauthorised goods", in the meaning that they are goods imported and marketed without the authorisation of their manufacturer, contrary to goods (imported and) marketed by their manufacturer or dealers authorised by their manufacturer, which are described as "authorised goods". The whole activity of exportation, importation, offer for sale, and sale of goods imported in parallel is called "parallel trade".

The term "parallel importation" means that the importation and marketing of goods that are genuine and that have been legally put on the market for the first time by a dealer that does not belong to the distribution system authorised by their manufacturer is taking place in parallel with the (importation and) marketing of goods from the same manufacturer by dealers-members of the distribution system authorised by the manufacturer.[2] The term "gray market" is generally used to suggest that goods that are genuine and that have been legally put on the market for the first time are imported and marketed without the authorisation of their manufacturer.[3] Indeed, the term "gray market" seems to be used mainly by the opponents, while, on the contrary, the term "parallel importation" is used mainly by the proponents of the legality of importing and marketing goods that are genuine and that have been legally put on the market for the first time without the

[1] Cf. Horner (1987), p. 1; Stothers (2007), p. 2.

[2] Cf. Curry (1986), p. 762 n. 5; Gorelick and Little (1986), p. 205 n. 1.

[3] Cf. Davis (1989), p. 1397 n. 2; Stothers (2007), p. 2; Turner (1986), p. 349 n. 2.

L.G. Grigoriadis, *Trade Marks and Free Trade*, DOI 10.1007/978-3-319-04795-9_1,

authorisation of their manufacturer.[4] In any event, the terms "parallel import" and "gray market" can be considered conceptually equivalent, in view of the fact that legal literature treats them as such.[5]

The practice of parallel imports can be performed either between markets of different countries (more frequently) or between markets within the same national territory (more rarely) and may concern whatever product, protected or not by an intellectual property right.[6] This book aims at the examination of the legal treatment of parallel trade between markets of different countries from the perspective of trademark law. The term "exporting country" or "source country" is used to describe the country out of the market of which a good is exported in parallel. The term "importing country" or "destination/target country" is used to describe the national market where a good is imported in parallel.

Parallel imports generally occur when the same goods are simultaneously marketed in different national markets and at different (ex-factory or wholesale or retail) prices.[7] Indeed, as will be analysed in the following section, the most favourable condition for parallel trade is the different pricing of the same product between national markets. The offer for sale of the same product in markets of different countries may take place either on the same or, more frequently, on different terms.[8] In particular, parallel trade mainly takes place between national markets in which identical or similar goods from the same manufacturer are made available. The parallel imports phenomenon is most likely to be observed between national markets where similar goods from the same manufacturer are traded. This is because manufacturers see at adapting the features of their products to the special preferences or expectations of each country's consumers with regard to the quality, properties, and usability of the products[9]; to the special manufacturing standards

[4] So maybe it is not by chance that the term "parallel imports" has been established particularly in the EU Member States, where the unauthorised importation and marketing of goods that are genuine and that have been legally put on the market for the first time in a Community (now EU) Member state have always been considered to be legal, pursuant to the case law of the ECJ (European Court of Justice), while the term "gray market" has been established particularly in the USA, where the legality of unauthorised importation and marketing of goods that are genuine and that have been legally put on the market for the first time outside the USA are subject to several limitations.

[5] See *McCarthy's Desk Encyclopedia of Intellectual Property* (1991): "The classic case of gray goods, also known as PARALLEL IMPORTS, is where someone other than the designated exclusive U.S. importer buys genuine trade marked goods outside the United States and imports them for sale in the United States in competition with the exclusive U.S. importer".

[6] Malueg and Schwartz (1994), p. 168 n. 1; Stucki (1997), p. 23.

[7] Freytag (2001), p. 27 (2001); Stothers (2007), p. 2.

[8] Stothers (2007), p. 2.

[9] Galstian (2000), p. 508; Knoll (1986), p. 170; Upadhye (1996), p. 62. So, for example, a chocolate manufacturer may use milk powder to prepare products intended for Spanish consumers, who have relatively low requirements regarding the chocolate quality, and fresh milk to prepare products intended for the Belgian market, where consumers are more demanding with regard to the chocolate quality.

likely imposed by each country's legal framework[10]; or, finally, to the special factual circumstances (climate, environment, etc.) that may guide the purchasing decisions made by each country's consumer audience towards certain specific types of products.[11] Actually, different prices for similar goods from the same manufacturer between markets of different countries are often due to the different characteristics of the goods.

The underlying reason why the phenomenon of parallel importation takes place is that independent traders take advantage of price differences between national markets. More specifically, parallel importation is mainly based on the assessment of an independent trader that he is able to resale the parallel imported goods in the market of the importing country at a price that is lower than that at which identical or similar goods from the same manufacturer are sold on the market of the same country by the manufacturer or authorised (by the manufacturer) dealers but that is higher than or at least equal to the sum of the acquisition price,[12] plus transaction costs.[13] The practice of parallel importation can, therefore, be considered as a form of arbitrage.[14] However, it is conceivable that no identical or similar goods from the same manufacturer are made available in the market of the country where goods are imported in parallel.

Starting now with the definition of parallel imports given above, the practice in question has the following characteristics.

Firstly, the phenomenon of parallel importation can refer only to goods that are genuine and that have been legally put on the market for the first time.

Although the term "genuine good" is used in legal doctrine, case law, and national laws from all over the world, it is a fact that there is no generally accepted definition of that term on an international level. In an attempt to define the meaning

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[10] Auvil (1995), p. 438; Miller (1986), p. 375. E.g., cars from the same manufacturer intended for sale in markets of different countries often have different safety specifications because of the special manufacturing standards stipulated by some national legislation.

[11] E.g., cars from the same manufacturer intended for sale in markets of different countries may have different types of tyres because of the essentially different weather conditions observed between some countries.

[12] That is, the price at which the independent trader acquired the parallel imported goods in the market of the exporting country.

[13] Cf. Auvil (1995), p. 438; Chard and Mellor (1989), p. 71; Freytag (2001), p. 27 (2001); National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 10. Transaction costs associated with parallel trade include mainly transport costs associated with physical shipping of parallel imported goods, cost of insuring the goods in question, and import duties and quotes. If the price at which goods imported in parallel are offered for sale in the market of the importing country is equal to the sum of their acquisition price plus transaction costs, it is evident that the parallel importer gains no benefit from his activity.

[14] See Stothers (2007), p. 2. Nevertheless, this is quite rare, since if no goods similar or identical to the parallel imported ones are made available in the market of the importing country, the parallel importer would not be able to assess consumers' demand at a price of the parallel imported goods that would be higher than or at least equal to the sum of the acquisition price plus transaction costs associated with parallel trade.

of the said term, it can refer to any good that has been actually produced under the control of the body to which consumers attribute the level of quality and all other features of the good. The requirement for the goods imported in parallel to be genuine means that those goods and the identical or similar goods already in circulation in the importing country must have been produced under the control of the same body, which is accountable for the quality and the other features of both of the previously mentioned goods[15] and which should be considered as the manufacturer of the goods in question. Such a body is the group of undertakings in the case of goods put into circulation by the parent or a subsidiary of the group, the licensor in the case of goods put into circulation by a person who is authorised to use the intellectual property right by which the goods are protected or the manufacturer in the case of goods put into circulation by a distributor (exclusive or selective).[16]

Nevertheless, for genuine goods to be imported in parallel, they also need to have been put legally for the first time on the market, that is to say they need to have been sold for the first time either by their manufacturer or by a member of the (exclusive or selective) distribution network authorised by the manufacturer. Thus, parallel importers must have acquired the goods they market either by the manufacturers of the goods or by authorised (wholesale or retail) dealers.[17]

Based on the above, the goods imported in parallel and the identical or similar goods that are already on the market in the importing country may have been manufactured and marketed for the first time by the parent undertaking and a

[15] Cf. Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG,* [1990] ECR I-3711, para. 13; Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, para. 37. Although the previously mentioned decisions refer to trademarked goods, the statements included in those decisions cover any parallel imported product, as they were formulated under the generally applicable Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).

[16] Cf. Case C-9/93, n. 15 above, para. 37. Although the previously mentioned decision refers to trademarked goods, the statements included in that decision cover any parallel imported product, as they were formulated under the generally applicable Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU). Also, although the ECJ refers only to “exclusive distribution”, it is submitted that both exclusive distribution and selective distribution are forms of authorised (by the manufacturer) distribution.

[17] It is worth noting that the term “gray market” is used as opposed to the term “white market”, which refers to the authorised (by the manufacturer) importation and marketing of goods that are genuine and that have been legally put on the market for the first time and, on the other hand, as opposed to the term “black market”, which refers to the importation and marketing of counterfeit or pirated or even stolen goods. See Alberts (1992), p. 843; Davis (1989), p. 1397; Lipner (1989), p. 308; Lipner (1990a), pp. 1–2; Oswald (2006–2007), p. 108; Warlick (1990), p. 350; Weicher (1989), p. 463; Yoshor (1992), p. 1364. For the meaning of “counterfeit goods” and “pirated goods”, see the relevant definitions included in the TRIPs Agreement and Regulation (EC) 1383/2003 of the Council of the European Union of 22 July 2003 “concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights” (OJ 2003 L 196/7) [Footnote 14 (a) and (b) of the TRIPs Agreement and Article 2 (1) (a), (b) of the Regulation (EC) 1383/2003].

subsidiary undertaking of a group respectively or vice versa; otherwise, they both may have been manufactured and marketed for the first time by the parent undertaking of a group or by subsidiaries belonging to the same group. In these cases, the manufacture and the first sale of the goods imported in parallel took place under the control and with the authorisation of the group in question. Also, the parallel imported goods and the identical or similar goods that are already on the market in the importing country may come from the same manufacturer, but the former may have been marketed for the first time by an authorised (by the manufacturer) distributor and the latter directly by the manufacturer or vice versa; otherwise, they both may have been marketed for the first time by authorised (by the manufacturer) distributors or directly by the manufacturer. Moreover, the parallel imported goods and the identical or similar goods that are already on the market in the importing country may have been manufactured and marketed for the first time by the proprietor of an intellectual property right and a licensee respectively or vice versa; otherwise, they both may have been manufactured and marketed for the first time by the proprietor of an intellectual property right or a licensee. Finally, a combination of the aforementioned cases is possible. For instance, the parallel imported goods may have been manufactured and marketed for the first time by the parent undertaking of a group, while the identical or similar goods that are already on the market in the importing country may have been manufactured and marketed for the first time by the holder of a licence of the intellectual property right by which the goods are covered, which has been granted by that undertaking.[18]

Secondly, the practice of parallel imports includes the exportation and importation of goods between two identifiable markets ("exporting market" and "importing market").

As noted above, parallel trade is mostly performed between markets in which identical or similar goods from the same manufacturer are put into circulation at the same time and at different prices. Taking into account, firstly, that the higher the difference is of prices for identical or similar goods from the same manufacturer between two markets, the higher the profit that can be gained through parallel trade and, secondly, the fact that substantial differences in prices of the same products are more often observed between markets in different countries rather than between markets located in the same national territory, the conclusion that parallel trade is, as a rule, performed between markets located in different countries is justified. Thus, parallel trade takes place, as a general rule, between national markets. It is evident that when parallel trade is taking place between national markets, the distinction of those markets is based on the national borders of the corresponding countries.

However, it is not excluded that parallel trade happens between markets located in the same national territory when individual geographical areas within the same country can be considered as independent markets due to special economic data that characterise them or due to special legislative regimes that govern them. In such cases, the distinction of the markets between which parallel trade occurs is based on

[18] The above cases derive from Case C-9/93, n. 15 above, paras 34–35.

the special economic data that characterise different geographical areas within the same country or the legislative regimes that govern them.[19]

However, as already mentioned, for the purposes of this book, as markets between which goods are imported in parallel shall be understood to mean national markets.

Thirdly, the practice of parallel imports is performed by a person that does not belong to the (exclusive or selective) distribution network organised by the manufacturer of the goods imported in parallel in the market of the importing country. In particular, as it derives from the definition of the practice of parallel importation given above, that practice covers the importation and marketing of goods that are genuine and that have been legally put on the market for the first time by a trader that does not belong to the (exclusive or selective) distribution network organised by the manufacturer of the parallel imported goods in the market of the importing country. However, parallel importation does not always include the offer for sale of the goods imported in parallel. Even the consumer or the end user of a good becomes a parallel importer when he transports the good from the country of purchase to the country of destination.[20] It is, of course, evident that parallel imports performed by consumers or end users are not legally relevant, given that, in fact, they cannot be traced and blocked by manufacturers and authorised distributors using legal means. On the contrary, parallel imports that include the distribution of the imported goods in the market of the importing country, namely parallel imports carried out by independent traders, can be traced and blocked, and therefore they are legally relevant. Nevertheless, the distribution of the goods imported in parallel is not necessarily addressed to the consumers of the importing country. It could be that it is addressed to another trader that is not part of the (exclusive or selective) distribution network that is authorised by the manufacturer of the parallel imported goods in the market of the importing country. So, the goods are likely to be imported in parallel again. As it has been aptly observed, goods imported in parallel may pass through several national markets and be resold by several independent traders before they end up in the hands of their consumers or their end users.[21]

The phenomenon of parallel imports refers to any kind of unauthorised importation and marketing of goods that are genuine and that have been legally put on the market for the first time. More specifically, when identical or similar goods from the same manufacturer are circulated in the markets of the exporting and importing countries, parallel importation can take one of the following forms[22]:

[19] Cf. Horner (1987), p. 1; Stothers (2007), p. 3. So, for example, between certain states in the USA differences are observed in the consumer's per capita income (economic circumstance) or in the law that regulates the marketing of certain goods (legal circumstance).

[20] Horner (1987), p. 1; Stothers (2007), p. 2. So, for example, purchasing a vehicle for private use in Belgium and importing it in the United Kingdom constitutes a parallel import.

[21] Stucki (1997), p. 23.

[22] See Chard and Mellor (1989), p. 70; Knoll (1986), p. 147.

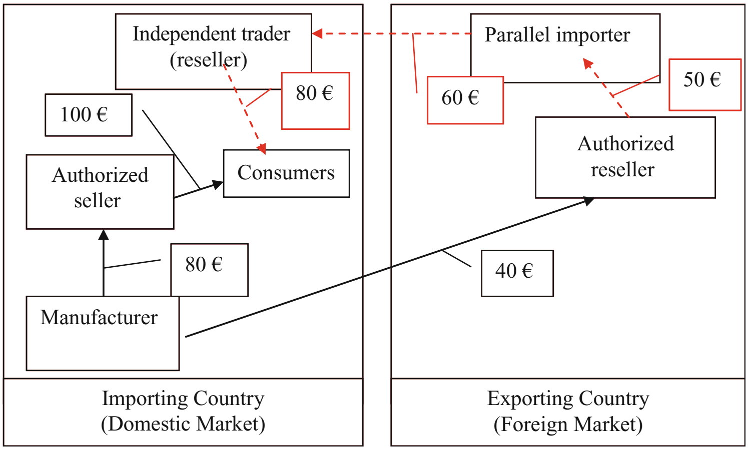

Fig. 1.1 Parallel reimport

a) a quantity of goods is exported by their manufacturer or an authorised (by the manufacturer) distribution network in order to be distributed in a national market and then reimported and distributed in the market of the exporting country by an independent trader ("parallel reimport").[23] Figure 1.1 is an example of a "parallel reimport".
b) a quantity of goods is imported into a country and is put onto the market by an independent trader in competition with identical or similar goods from the same manufacturer, produced domestically and distributed by the manufacturer or an authorised (by the manufacturer) distribution network ("non-genuine parallel importation").[24] Figure 1.2 is an example of a "non-genuine parallel importation".
c) a quantity of goods is imported into a country and is put onto the market by an independent trader in competition with identical or similar goods from the same manufacturer, imported and distributed by the manufacturer or an authorised (by the manufacturer) distribution network ("parallel importation in the strict sense of the term").[25] Figure 1.3 is an example of a "parallel importation in the strict sense of the term".

The acquisition of goods by a parallel importer may have occurred at any level of the distribution chain.[26] More specifically, the goods in question may have been acquired either directly by the manufacturer or more usually by any (wholesale or

[23] This form of parallel imports is especially noted by Stucki (1997), p. 23.

[24] The term "non-genuine parallel importation" ("unechte Parallelimport" in German) has been suggested by Fricke (1977), p. 217.

[25] See Chard and Mellor (1989), p. 70.

[26] Galstian (2000), p. 508; Horner (1987), p. 1; Perl (1990), p. 646.

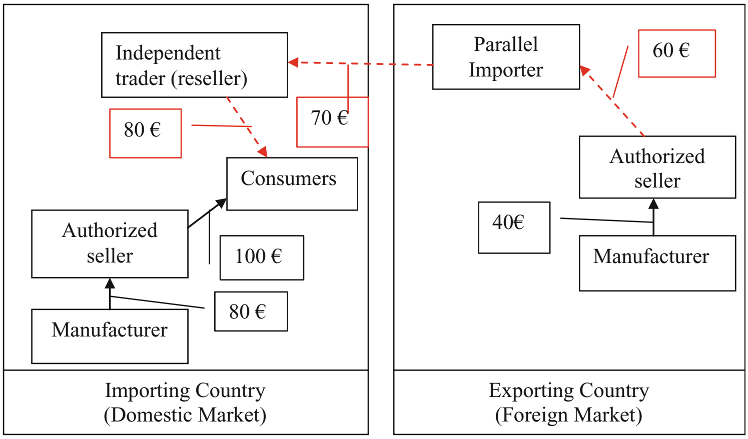

Fig. 1.2 Non-genuine parallel importation

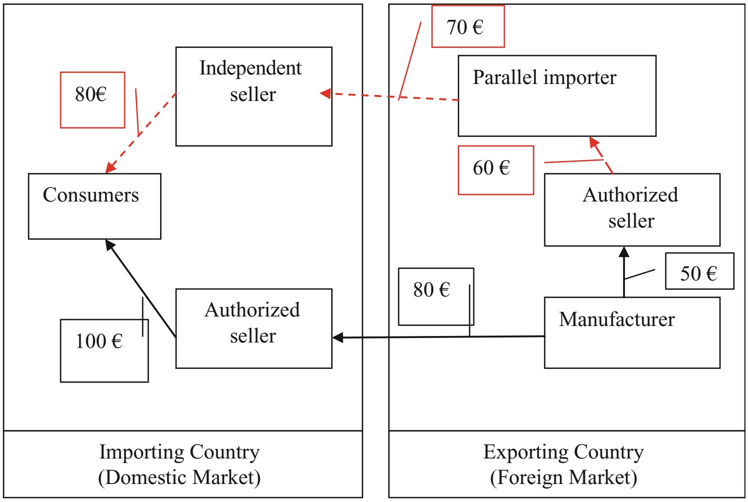

Fig. 1.3 Parallel importation in the strict sense of the term

retail) seller(s)-member(s) of the distribution network authorised by the manufacturer.

The first possibility of the acquisition from the manufacturer arises more frequently when defects or imperfections occurred during the manufacture of a quantity of goods resulted in the creation of a “second choice” stock, namely a stock that meets lower quality standards than what the manufacturer desires to characterise the goods distributed through his authorised sellers. When having to choose between leaving the said stock undistributed and destroying it or selling it to an independent trader, even at a lower price, the second option seems more probable.[27] However, the possibility of acquisition directly from the manufacturer may also arise when the manufacturer seeks for a way to force his authorised sellers in a national market to reduce their margins of profit. As noted below, in the context of parallel importation, one sees conditions of intra-brand competition in the markets of the importing countries, since goods from the same manufacturer are distributed at the same time both by authorised and independent traders. That intra-brand competition may lead to a reduction of the profits of authorised sellers and manufacturers. This is the primary reason for which manufacturers and authorised distributors seek to prohibit the gray market, using all legal means available. However, it cannot be excluded that a manufacturer provides goods to an independent trader, aiming to put pressure on the members of an authorised distribution network to reduce their margins of profit, in the event he believes that those margins are extremely high. More specifically, it is possible that a parallel importation has been instigated by the manufacturer of the parallel imported goods as an ultimate means of defence against extremely high margins of profit sought by authorised (wholesale or retail) dealers in a national market, which (margins) may turn consumer demand towards similar products from other manufacturers.[28] Actually, turning to the gray market as a "disciplinary measure" against collusive arrangements among the members of an authorised distribution network regarding increases in profit margins beyond some reasonable limits may constitute a one-way solution for the manufacturer. This may happen when contractual obligations or legal restrictions deprive the manufacturer of other means that could probably allow him to pass any decline of ex-factory prices of his goods to the prices of his authorised sellers, as for example appointing additional distributors or imposing a maximum resale price.[29]

The second possibility of supply through a (wholesale or retail) dealer-member/(wholesale or retail) dealers-members of an authorised distribution network is more often the case. Incomplete or "loose" wording of the contractual obligations that the authorised sellers of a product undertake vis-à-vis their suppliers about non-distribution of the product to independent traders,[30] provision of authorised sellers with volumes of goods that outweigh demand in the territory assigned to them,[31] as well as failure of a manufacturer to supervise authorised distribution channels for his product[32] are conditions favouring the acquisition of goods from authorised dealers by parallel importers.

[27] Cf. Rumberger (1988), pp. 1109–1110.

[28] Hilke (1988), pp. 80–81.

[29] Hilke (1988), pp. 79–80.

[30] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[31] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[32] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33. As has been aptly noted, the term "gray" should not be referred to the marketing of goods that have been imported in parallel, since such goods are genuine, like those distributed by authorised sellers, but it should be referred to the distribution channels through which goods reach parallel importers. See Heath (1997), p. 623.

The freedom of parallel trade surely does not harm manufacturers if the latter do not market goods identical or similar to the parallel imported ones in the destination countries. On the contrary, in such a case, parallel trade should be an activity that is desirable to manufacturers. This is because the development of the gray market means, in such a case, an increase in volumes of sales of their products in the markets of countries from where goods are exported in parallel.

However, in normal cases where manufacturers make available goods identical or similar to the parallel imported ones in the importing countries, the freedom of parallel trade may result in a reduction of manufacturers' and authorised sellers' profits in those countries, compared to the profits gained before this practice appears. In particular, the distribution of gray market goods creates conditions of intra-brand competition in the market of the destination country, since such a distribution means that identical or similar goods from the same manufacturer are at the same time made available by both authorised and independent traders. That intra-brand competition will lead to a reduction of prices at which authorised sellers sell their goods.[33] If the reduction of the prices of authorised sellers is attempted by limiting their profit margins and, by extension, the manufacturer's profit margin and not through cutting the selling cost of their goods, it is obvious that that reduction will mean a decline of the profits of the sellers in question and, by extension, a decline of the profit of the manufacturer. The decline of the profits of the authorised sellers and the manufacturer may be balanced by a possible increase in the volume of their sales, as a consequence of the reduced prices of their goods.[34] However, it is not certain at all that under a regime of freedom of parallel trade the profits of the manufacturer and the authorised sellers of a product in a market will be the same compared to the profits they would gain if they could prevent such trade from taking place. So, the main reason for which manufacturers and authorised (exclusive or selective) distributors seek to prohibit the gray market using all legal means available is that it is highly possible to entail a reduction of the profit margins that the above-mentioned persons desire in the markets of the countries where goods imported in parallel are offered for sale.[35] As has been indeed noted, the reduction of manufacturers' and authorised sellers' profits will be higher when profit margins are already low.[36]

Nevertheless, according to economic theory, the practice of parallel imports may constitute a rather short-term source of gaining high profits with regard to a product. More specifically, economic analysis indicates that in the long term the manufacturer will respond to the intra-brand competition developed in the country where

[33] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 123.

[34] So also Mulch (2001), p. 112. Moreover, cf. National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), pp. 123–124.

[35] So also Mulch (2001), p. 112. Moreover, cf. National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 124.

[36] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 124.

goods are imported in parallel by adopting a uniform pricing policy between the said country and the exporting country, to the extent allowed by exchange rate fluctuations and the legal frameworks governing the functioning of the markets of those countries.[37] However, an approximation of the prices at which the same product is offered for sale in different countries makes the activity of parallel trade less and less profitable. As highlighted, this happens because, for a parallel import to be economically attractive for an independent trader in concreto, the latter must be able to sell the parallel imported goods in the market of the destination country at a higher price than the sum of their acquisition price in the market of the country of origin, plus transaction costs. However, this is less and less possible the more the (ex-factory or wholesale or retail) price of the goods from the manufacturer of the parallel imported goods in the market of the exporting country approximates the corresponding price of identical or similar goods from the same manufacturer in the market of the importing country. In the light of these considerations, it is logical to observe that, simultaneously to the reversal of pricing policies followed by manufacturers in the markets of the countries where goods are imported in parallel, the *raison d'être* of the practice of parallel imports is also reversed.[38] The latter consists in the exploitation of the significant difference of prices at which the same product is sold in markets of different countries.

Closing the presentation of the parallel imports phenomenon, it would be an omission not to highlight economists' concern regarding the consequences of the freedom or the prohibition of parallel trade for socioeconomic welfare. This remark, which is confirmed by studies carried out to assess the impact of the aforementioned phenomenon on global socioeconomic welfare,[39] requires legislators and legal commentators to seriously take into account the findings of economic analysis before adopting or formulating, respectively, any position on the issue of its legality.[40]

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[37] See, indicatively, Danzon (1998), p. 299. See also Perrott (1988), p. 51. According to NERA, as long-term economic consequences of the freedom of parallel trade are considered those that emerge after 1 or 2 years after the said practice has appeared. See National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 123.

[38] Horner (1987), p. 3.

[39] See the studies to which reference is made in *infra* Sect. 1.3.1, where also the findings of those studies are mentioned.

[40] As *Rothnie* notes, the solutions adopted and the positions expressed on the issue of the legality of parallel imports by legislators and legal commentators, respectively, often contradict the findings of relevant economic studies. See Rothnie (1993), pp. 3–4.

1.2 Favourable Conditions for the Practice of Parallel Imports

The identification of the conditions that contributed in concreto to the gray marketing of a product is not an easy case, given that such conditions can be located at any level of the product distribution chain. Moreover, a parallel import operation actually requires a combination of conditions considered by legal science as favourable for the development of the phenomenon of parallel importation.[41] On an abstract level, though, the following conditions are identified as favourable for the practice of parallel imports.

1.2.1 Different Prices for the Same Product Between Two Markets

The different level of (ex-factory, wholesale or retail) prices of identical or similar goods from the same manufacturer between two national markets constitutes the main condition that can urge an independent trader to make a parallel importation.[42] However, for a parallel importation to be considered profitable for an independent trader in concreto, the difference of (ex-factory, wholesale or retail) prices of the same product between two national markets is not sufficient.[43] On the contrary, as noted in the previous section, there should be such a difference of prices that would allow reselling the goods imported in parallel in the market of the importing country at a price that is lower than that at which identical or similar goods from the same manufacturer are sold on the market of the same country by the manufacturer or authorised (by the manufacturer) dealers but is higher than or at least equal to the sum of the acquisition price, plus transaction costs, of engaging in parallel trade.[44] The different price levels at which identical or similar goods from the same manufacturer are sold in different countries may have caused by the following reasons.

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[41] So also Andrade (1993), p. 412 n. 6.

[42] Andrade (1993), p. 412; Auvil (1995), p. 438; Donnelly (1997), p. 511; Friedman (1998), p. 28; Ghosh (1994), p. 373; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), pp. 10 and 32–33; Oswald (2006–2007), pp. 108–109; Swanson (2000), p. 329.

[43] Cf. National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 10.

[44] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 10. See also *supra* Sect. 1.1.

1.2.1.1 Cost Differentials Among Nations

The different price levels at which the same product is made available in markets of different countries can be attributed to factors over which the manufacturer has no control at all.

In particular, the above-mentioned phenomenon can occur due to the legal framework that may regulate in a binding manner the formation of the prices for a class of products in a specific country[45] or to the different cost of production,[46] namely the different cost of supply[47] and processing of raw materials, and also to the different labour costs between countries.[48] Also, the above-mentioned phenomenon can possibly be the result of the state subsidies that may be granted to support the productive industry of a class of goods in a specific country,[49] the result of the differences between the taxation systems applicable in each country,[50] or the result of the different levels of consumer's per capita income in different countries.[51] Finally, it can be attributed to the different features that similar products sold in markets of different countries have, e.g. different qualities; different specifications of use, function, or luxury; different equipment; or different guarantees.[52] Here, we should be reminded that putting into circulation the same product on different terms in markets of different countries is mainly due to the special preferences or expectations of each country's consumers with regard to the quality, properties, and usability of the product; to the specific manufacturing standards imposed by each country's legal framework; or, finally, to the specific factual circumstances (climate, environment, etc.) that may guide the purchasing decisions made by each country's consumer audience towards certain specific types of products.

The different levels of prices of the same goods between national markets can therefore be attributed to reasons that are outside the sphere of control of their

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[45] Stothers (2007), p. 20. Thus, for example, in relation to pharmaceuticals, the establishment of profit margins is often subject to control by the State.

[46] Andrade (1993), pp. 416–417; Auvil (1995), p. 438; Lach (1989), p. 226; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34.

[47] Andrade (1993), p. 417 n. 19. E.g., the transportation cost of raw materials from India to Africa is, most possibly, less than the transportation cost of raw materials from India to the USA.

[48] Important production cost drivers in a country are considered the power of the labour unions and of the state mechanisms to monitor the implementation of labour laws. See Andrade (1993), p. 417 n. 20.

[49] Andrade (1993), p. 417.

[50] Auvil (1995), p. 438.

[51] It is submitted that price elasticity of demand for a product tends to be higher in national markets with lower average incomes and lower in national markets with higher average incomes. Therefore, prices tend to be lower in national markets with lower average incomes and higher in national markets with higher average incomes. See National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34.

[52] Auvil (1995), p. 438; Cornish (1998), p. 173; Gross (2001), p. 225; Miller (1986), p. 375; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33; Oswald (2006–2007), p. 109; Swanson (2000), p. 329.

manufacturer.[53] The preservation of the same markup profit in all countries where a product is made available requires, in many cases, the adoption of a different pricing policy in each national market.[54]

1.2.1.2 Differences in Local Demand—Different Competition Conditions

Differences in local demand and different competition conditions can also be reasons for different price levels regarding the same product among national markets.

With regard to differences in local demand, it is observed that the price of a product tends to be lower in national markets where the demand for the product is more price responsive (i.e., price elastic), as a result of the circulation of a high number of close substitutes.[55] On the contrary, the price of a product tends to be higher in national markets where the demand for the product is less price responsive (i.e., price elastic), as a result of fewer available close substitutes.[56]

Closely linked to differences in local demand, the different prices for the same product in different national markets can be due to different competitive conditions prevailing in each national market for the product in question.[57] Specifically, the price of a product tends to be higher in national markets with a limited number of dominant suppliers of similar products,[58] namely in national markets where inter-brand competition is weak. Poor information being given to consumers and their weak organisation in associations aiming to protect their interests can also lead to an increase of the price of a product.[59]

1.2.1.3 Different Marketing Strategies

The adoption of different marketing strategies can constitute another reason for different prices for the same product among national markets.[60] In this case, the different pricing is, more precisely, attributed to the different profit margins given

[53] So also Andrade (1993), p. 417.

[54] See Andrade (1993), p. 417 n. 22.

[55] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[56] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[57] Cornish (1998), p. 173; Gross (2001), p. 225; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34.

[58] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34.

[59] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34.

[60] Auvil (1995), p. 438; Picard (1996), p. 423; Rothnie (1993), p. 586.

by one or another marketing strategy.[61] The choice of one or another marketing strategy is, in its turn, dependent on the amount of investments that authorised distributors of a product decide to make, aiming to commercially promote the product in every national market.[62]

1.2.1.4 Price Discrimination

The different pricing of the same product among different national markets is also likely to be part of the price discrimination policy that the manufacturer follows.[63] In this case, the different pricing is attributed to the monopoly or, at least, the market power that the manufacturer holds in more than one national market. The monopoly or the market power (i.e., position of economic strength) of a manufacturer in more than one country may enable him to prevent effective price competition being maintained on the relevant markets by giving him the power to behave to an appreciable extent independently of his competitors, customers, and, ultimately, the consumers of his product.[64]

What makes a manufacturer that holds a monopolistic position or a position of economic strength in more than one national market employ price discrimination between the markets is the higher profits that he can gain through a higher pricing of his product in countries in which the average incomes are higher, where the price elasticity of demand for the product is, by rule, lower and through a lower pricing of his product in countries in which the average incomes are lower, where the price elasticity of demand for the product is, by rule, higher.[65]

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[61] A typical example of marketing strategies leading to different profit margins is the "pull strategy" and the "push strategy". The "pull strategy" offers low profit margins and relies very little on intermediaries. The "push strategy" offers high profit margins to wholesalers and other intermediaries, with the expectation that they will promote the product vigorously. See Picard (1996), p. 423.

[62] Baugh (1986), p. 265; Gilbert et al. (1986), pp. 111–112; Lach (1989), p. 226; Rumberger (1988), pp. 1107–1108.

[63] Andrade (1993), p. 415; Auvil (1995), p. 438; Chard and Mellor (1989), p. 76; Donnelly (1997), p. 514; Galstian (2000), p. 508; Hilke (1988), p. 78; Knoll (1986), p. 171; Lach (1989), p. 226; Miller (1986), pp. 375–377; Oswald (2006–2007), p. 109. It is noted that the association of price discrimination policy with the phenomenon of parallel importation has been a major concern for the economic science. See, indicatively, Ganslandt and Maskus (2007b), Malueg and Schwartz (1994), Staaf (1989) and Szymanski and Valletti (2005).

[64] Cf. Case C-27/76, *United Brands Company and United Brands Continentaal BV v. Commission of the European Communities,* [1978] ECR 207, para. 65.

[65] Chard and Mellor (1989), p. 76; Gallini and Hollis (1999), p. 4; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), pp. 14–15 and 33. In economic terms, "price discrimination includes the practice of charging a different price for the same product to different consumers even though the cost of sale to each of them is the same. Price discrimination, however, does not include the practice of charging a different price to different consumers when the differences can be accounted for by differences in the cost of sale". See Knoll (1986), p. 171 n. 100; also Chard and Mellor (1989), pp. 76–77.

However, price discrimination is not the main reason for selling the same product at different prices in different countries. This is due to the fact that in the attempt of a manufacturer to acquire a monopolistic position or a position of economic strength, several market phenomena can operate as obstacles, such as the circulation of a high number of substitute products, fluctuations in the elasticity of the demand curve, and enhanced inter-brand competition.[66] An enhanced inter-brand competition with regard to the product for which price discrimination is attempted will, in particular, result in a decrease of the manufacturer's market share in the relevant market. That decrease will push the manufacturer to reconsider his pricing policy.[67]

1.2.2 Exchange Rate Fluctuations

It has been widely argued that exchange rate fluctuations constitute an important parallel trade driver.[68] More specifically, it has been argued that favourable conditions for parallel trade arise when the exchange rate of a country where goods are imported appreciates, but import prices denominated in that country's currency are not reduced commensurately (Incomplete Pass—through of Currency Fluctuation), so that the same goods may be offered for sale at different (real) prices in different countries.[69] Some of the reasons for which import prices may not be affected by

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[66] Andrade (1993), p. 416. See also Miller (1986), p. 376. For the conditions that must be met for price discrimination to work, see analytically Stigler (1966), pp. 209–214.

[67] Chard and Mellor (1989), p. 77.

[68] See Andrade (1993), p. 413; Auvil (1995), p. 438; Bagley (1995), p. 1541; Baugh (1986), pp. 264–265; Coggio et al. (1985), p. 434; Davis (1989), pp. 1398–1399; Donnelly (1997), p. 515; Douglas (1988), pp. 414–415; Fogel (1986–1987), pp. 308–309; Galstian (2000), p. 508; Hansen (1987), p. 250; Hiebert (1990), p. 483; Hilke (1988), p. 81; Iino (1986), p. 179; Knoll (1986), pp. 145–146; Lach (1989), p. 226; Miller (1986), p. 377; Mohr (1996), p. 561; National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 34; Nolan-Haley (1984), p. 232; Oswald (2006–2007), p. 109; Picard (1996), p. 422; Rumberger (1988), p. 1105; Swanson (2000), p. 329; Upadhye (1996), p. 92; Victor (1984–1985), p. 790; Weicher (1989), p. 464.

[69] Donnelly (1997), p. 515. For the impact of exchange rates fluctuations over prices in general, see Dornbusch (1987) and Krugman (1987). Here is an example that makes the potential link between incomplete pass through of currency fluctuation and parallel trade clearer:

Assume that a German manufacturer charges 100 EUR per unit to an authorised Spanish distributor and 100 USD per unit to an authorised US distributor. Also, we assume that those two distributors are contractually committed to place a 25 % markup per unit for investment in the value of the manufacturer's trademark. Furthermore, it is assumed that shipping costs from the US to Spain is 10 euros per unit.

Based on the above data, when the exchange rates are 1 EUR = 1 USD, parallel imports from the US to Spain are economically undesirable. This is because the authorised distribution price of the product in question both in the US and in Spain will be 125 USD or EUR per unit (100 USD or EUR per unit manufacturer's price + 25 USD or EUR per unit local trademark investment), while the parallel importation of the product in question would cost to an independent dealer 135 EUR per unit (125 USD = 125 EUR the acquisition cost per unit in the US + 10 euros per unit shipping costs from the US to Spain).

exchange rate changes include manufacturers' output constraints, strategic output and pricing considerations, barriers to entry, and long-run marketing considerations.[70]

According to the findings of an economic study,[71] parallel imports that take place as a result of abrupt exchange rate fluctuations increase competition to the benefit of consumers. Other studies,[72] on the contrary, conclude that sound and effective business operation will not result in immediate pass through of currency exchange movements.[73] This happens because the implementation of effective marketing strategies by an undertaking requires planning and commitment to orders many months in advance, so that the said strategies are not prepared to react immediately to sudden exchange rate changes.[74] Moreover, good business practice of an undertaking makes its hedging against such changes necessary.[75] In either case, price changes due to exchange rate fluctuations will not benefit consumers in

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However, if the exchange rate between EUR and USD changes to 1 EUR = 2 USD, then favourable economic conditions would arise for parallel trade. More specifically, the German manufacturer would continue to charge his product to his US distributor at 100 USD per unit. However, due to the fact that the exchange rates are now 2:1, the manufacturer's charge to the authorised distributor in Spain will be 50 EUR per unit, as a result of the competition that foreign trademarks cause. Taking for granted that the trademark investment remains the same in Spain notwithstanding the currency fluctuation, the total price of the product in question in Spain will be 75 EUR (50 EUR plus 25 EUR). At the same time, the authorised marketing price of the product in question in the US amounts at 125 USD per unit or, given the new exchange rate between the USD and the EUR (2:1), 62.50 EUR per unit. Assuming shipping costs to be 10 USD or 5 EUR per unit, the price of the product under consideration to the parallel importer will be 67.50 EUR. Thus, the exchange rate has effectively created a 7.50 EUR price differential between the US market and the Spanish market, which allows a parallel importer to earn substantial arbitrage profits by importing US goods into Spain.

Despite the above example, it is noted that some authors have formulated reservations with regard to whether abrupt exchange rate changes actually constitute a favourable condition for the development of the parallel importation phenomenon. In particular, although *Malueg & Schwartz* accept that the "incomplete pass through" of exchange rates could be a favourable factor for the establishment of parallel imports, they argue nevertheless that the evidence supporting such a position is inadequate (Malueg and Schwartz 1994, pp. 173–174). As also *Donnelly* notes, during the 1980s, a period of significant US currency fluctuations, a significant increase in legal disputes concerning the legality of parallel imports in the US was observed. Nevertheless, there is a long history of parallel trade between EEC (now EU) Member States during the period in which the European Monetary System was in force, a primary goal of which was to stabilise prices (Donnelly 1997, p. 515). *Miller* also expresses doubts about whether abrupt exchange rate changes are actually a favourable condition for parallel importation. He argues that such changes may explain certain instances of apparent discriminatory pricing (Miller 1986, p. 377 n. 66).

[70] Hilke (1988), pp. 81–82; Rumberger (1988), pp. 1105–1106.

[71] This is the conclusion reached by *Hilke* (Hilke 1988), who considers that connecting the parallel importation phenomenon to abrupt exchange rate fluctuations is consistent with the findings of statistical surveys in the US.

[72] Studies of the "Prices Surveillance Authority" (PSA) (Australia).

[73] See Rothnie (1993), p. 587 and n. 32 thereto.

[74] Rothnie (1993), p. 587.

[75] Rothnie (1993), p. 587.

the short term.[76] Finally, as noted, the role of exchange rate changes in causing sharp increases in the volumes of parallel imports may indicate that manufacturers make an effort, albeit without any evident outcome, to ensure that price differences between markets are kept within some limits.[77]

1.2.3 Infringement of the Contractual Obligations of the Authorised Dealers

The favourable conditions for parallel import operations include also the infringement of the contractual obligations undertaken by the members of the (exclusive or selective) distribution networks authorised by the manufacturers regarding non-supply of goods to independent traders. More specifically, as noted above,[78] parallel importers more usually acquire goods not from manufacturers but from (wholesale or retail) sellers-members of authorised distribution networks. When an independent trader is provided with goods by an authorised seller, such a provision constitutes, by rule, an infringement of the authorised seller's contractual obligation vis-à-vis his supplier about non-supply of goods to independent traders. Such an infringement is often "favoured" by an incomplete or "loose" wording of the previously mentioned obligation in the relevant contract between the authorised seller and his supplier,[79] by a supply to the authorised seller of a quantity of goods that outweighs demand in the territorial area assigned to him,[80] and/or by an inadequacy of the supplier in implementing surveillance methods for his distribution channels.[81]

1.2.4 Overcapacity for a Product

Finally, another condition that may lead to parallel trade is overproduction.[82] More specifically, the overcapacity of a product in a country can lead to the exportation of the excess quantity to other countries. Such exportation can, evidently, be performed through independent traders.[83]

[76] Rothnie (1993), p. 587.

[77] Rothnie (1993), p. 587.

[78] See *supra* Sect. 1.1.

[79] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[80] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[81] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[82] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

[83] National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33. The distribution of the excess quantity of a product by an independent dealer may be preferred by the owner of the product's trademark than the distribution of the quantity in question by authorised sellers at a price that could risk or jeopardise the economic value of the trademark of the product. See National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 33.

1.3 The Parallel Importation Phenomenon from the Perspective of Economic and Legal Sciences

1.3.1 The Parallel Importation Phenomenon from the Perspective of Economic Science

1.3.1.1 Introduction

The question of whether socioeconomic welfare from a global point of view increases under a regime of freedom of parallel trade or under a regime of no parallel trade between national markets is one of the most typical areas of concern for economic theorists. Specifically, an issue arises regarding whether the welfare of consumers and undertakings in the countries of origin and in the countries of destination of parallel imported goods in total, that is to say socioeconomic welfare on a global level, is promoted through the freedom or, on the contrary, through the exclusion of parallel trade. The studies that have been carried out regarding the impact of freedom of parallel trade on global socioeconomic welfare[84] show that the investigation of the above-mentioned issue requires that this be examined in the light of the following subject areas.

1.3.1.2 The Discussion About the Impact of Freedom of Parallel Trade on Global Socioeconomic Welfare

Price Discrimination

As mentioned in the previous section, the substantial difference of prices for the same product between national markets can fall within the framework of a discriminatory pricing policy when the manufacturer holds a monopolistic position or a position of economic strength in the markets in question.[85] The purpose of price discrimination is, as mentioned above, the maximisation of manufacturers' profits through a lower pricing of their products in national markets with low per capita incomes, where the price elasticity of demand is, by rule, high, and through a higher

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[84] See Abbott (1998, 2007), Barfield and Groombridge (1999–2000), Chard and Mellor (1989), Chen and Maskus (2005), Danzon (1998), Gallini and Hollis (1999), Ganslandt and Maskus (2007a, b), Grossman and Lai (2008), Li and Maskus (2006), Malueg and Schwartz (1994), Maskus and Chen (2002, 2004), Maskus (2000a), Müller-Langer (2012), Rey (2003), Szymanski and Valletti (2005) and Valletti (2006). It is noted that several studies have also been commissioned to assess the impact of parallel imports from non-EEA Member States on the socioeconomic welfare of the EU/EEA Member States (see the economic studies cited in *infra* section "Reactions Among Legal Writers to the Outcome of the Judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*").

[85] See *supra* Sect. 1.2.1.4.

pricing of their products in national markets with high per capita incomes, where the price elasticity of demand is, by rule, low.[86]

According to economic theory (the theory of Ramsey pricing), price discrimination between national markets with different demand structures promotes global socioeconomic welfare, as it allows the maximisation of production, the amortisation of investments made by manufacturers and authorised distributors, and also the marketing of products at low prices in poor or developing countries.[87] As an economic study observes, increasing the output and ensuring the marketing of products at low prices in poor or developing countries constitute powerful arguments for the prohibition of parallel trade, even if price discrimination leads to misallocation of output.[88] This happens because, in the long term, the freedom of parallel trade would most possibly push manufacturers towards a uniform pricing strategy for their goods across national markets to the extent allowed by exchange rate fluctuations and the legal frameworks governing the functioning of the markets.[89] A uniform pricing strategy for a product across national markets where the manufacturer holds a monopolistic position or a position of economic strength would result, in its turn, in a reduction of the total volume of sales or even in no sales of the product in some countries (closure of national markets).[90] More specifically, a uniform pricing strategy for a product across national markets where the manufacturer holds a monopolistic position or market power and which are characterised by different demand structures would mean, as a rule, an increase in prices of the product in national markets with low average incomes, where the price elasticity of demand for the product tends to be high,[91] so that the previously mentioned prices approximate prices of the product in national markets with high average incomes, where the price elasticity of demand tends to be low. However, an increase in prices of a product in national markets where the price elasticity of demand for the product is high would result in a reduction of quantities offered for sale in those markets[92] and, further, in a decrease in the manufacturer's expected profits from the markets in question. Such a decrease would possibly urge the manufacturer even to stop marketing his product in the markets in question, unless that decrease would be offset by profits that the manufacturer would gain by employing higher pricing in national markets where the price elasticity of demand for his product is low. This result would, evidently, be harmful for the socioeconomic welfare of poor or developing countries, where consumers would have no longer access to products of some manufacturers.[93]

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[86] See *supra* Sect. 1.2.1.4.

[87] See Ramsey (1927). For the benefits arising from price discrimination for global socioeconomic welfare, see Katz (1987), Schmalensee (1981), Schwartz (1990) and Varian (1985).

[88] See Malueg and Schwartz (1994).

[89] Danzon (1998), p. 299. See also Perrott (1988), p. 51.

[90] Danzon (1998), p. 300; Maskus (2000a), p. 1275.

[91] Maskus (2000a), p. 1276.

[92] Maskus (2000a), p. 1276.

[93] Danzon (1998), p. 300; Maskus (2000a), p. 1276; Perrott (1988), p. 52. See the mathematical analysis by Malueg and Schwartz (1994), pp. 175–183.

Moreover, contrary to what some economists argue, price discrimination does not necessarily entail, according to the same economic study, a limitation of the socioeconomic welfare of rich or developed countries. More specifically, under a regime of discriminatory pricing, goods from some manufacturers are made available to consumers of rich or developed countries at higher prices than those at which the same goods would be made available if their manufacturers had adopted a uniform pricing policy across national markets as a response to a regime of unrestricted parallel importations into the markets of the countries in question. In the light of these considerations, discriminatory pricing reduces the socioeconomic welfare of rich or developed countries. However, such a reduction may be offset by higher profits that discriminatory pricing reserves for undertakings doing business in rich-developed countries, so that ultimately the socioeconomic welfare of the previously mentioned countries is likely not to be decreased.[94]

Indeed, based on Ramsey pricing, price discrimination in the long term can benefit consumers both in rich or developed and poor or developing countries. This is because an inability of manufacturers to apply discriminatory pricing under a regime of unrestricted marketing of gray market goods means not only lower profits but also a risk of non-amortisation of investments related to the cost of sale of their goods. However, ensuring the amortisation of the said investments is a precondition for manufacturers in order to improve the quality of their goods, provide new pre-sale and after-sale services, or improve the quality of existing pre-sale and after-sale services,[95] as well as make new investments in the field of research and development (R&D) with a view to developing new innovative products. Especially with regard to pharmaceutical products, economic theory has highlighted that parallel imports jeopardise the amortisation of the investments made for manufacturing new drugs.[96] Moreover, according to other economic studies, the freedom of parallel trade in pharmaceuticals means not only a risk of non-amortisation but also a drop in the level of investment in the field of research for new drugs.[97] In any case, uniform pricing across national markets that are characterised by different demand structures may give rise to a deterioration in the quality of goods, to less before- and after-sales services (and/or to a deterioration of the said services), as well as to a reduction in investment made for the promotion of innovation.[98]

In the light of the above, parallel trade occurring between national markets with different demand structures seems to harm global socioeconomic welfare. Based on

[94] Malueg and Schwartz (1994), p. 191.

[95] For the terms "pre-sale services" and "after-sale services", see *infra* section "Free Riding".

[96] See, *inter alia*, the studies by Barfield and Groombridge (1999–2000), Chard and Mellor (1989), Danzon and Towse (2003), Danzon (1997, 1998) and Malueg and Schwartz (1994).

[97] See, *inter alia*, the studies by Li and Maskus (2006), Rey (2003), Szymanski and Valletti (2005) and Valletti (2006). The study by Grossman and Lai (2008) reaches the opposite conclusion, as they argue that the freedom of parallel trade is what promotes innovation in the pharmaceutical industry.

[98] Chard and Mellor (1989), pp. 77–79.

the findings of economic analysis, consumers in poor or developing countries will initially face higher prices and, then, a drop in available quantities or even a discontinuation of distribution of goods from some manufacturers in the markets of their countries. Besides, in the long term, consumer welfare seems to be harmed both in rich or developed and in poor or developing countries, as a result of less investments made in the field of R&D, a reduction of the number (and/or a deterioration of the quality) of before- and after-sales services, and a deterioration of the quality of some products. On the other hand, it could be argued that global socioeconomic welfare is promoted when parallel trade takes place between national markets with similar demand structures.[99]

Although for many economists prohibiting parallel trade in favour of price discrimination policies between national markets with different demand structures promotes global socioeconomic welfare, there are arguments that bring this position into question. The following are some of the said arguments:

Firstly, price discrimination allows manufactures to create or maintain monopolies.[100] The consequences of the creation or maintenance of monopolies include, among others, the distribution of products to consumers in rich or developed countries at excessively high prices compared to their cost of sale. In this respect, it has been submitted that excessively high profit margins sought by authorised sellers in some countries sometimes push manufacturers themselves to encourage parallel importations of their goods into the said countries.[101]

Secondly, the fact that manufacturers are unable to apply price discrimination under a regime of unrestricted parallel imports is not necessarily harmful for the socioeconomic welfare of poor or developing countries. Quite the reverse, statistical data suggest that prices of some goods (e.g., pharmaceuticals) imported into poor or developing countries through authorised distribution channels are higher in the previously mentioned countries under a regime of no parallel trade between those countries and rich or developed countries compared to the corresponding prices under a regime of freedom of parallel trade.[102] Moreover, it can be logically expected that even under a regime of unrestricted parallel imports, consumers of poor or developing countries with large markets may have access to cheaper goods, made available in markets of neighbouring countries.[103]

Thirdly, the freedom of parallel trade contributes to the industrial development of poor or developing countries.[104] This happens because goods imported in parallel have been often manufactured in countries with low production costs,

[99] See Maskus (2000a), pp. 1276–1277, who, although accepts the analysis commissioned by Malueg and Schwartz (1994), notes nevertheless that the said analysis takes the existence of linear demand and constant marginal cost conditions for granted.

[100] Maskus (2000a), p. 1275.

[101] Hilke (1988), pp. 80–81; Maskus (2000a), p. 1277. See *supra* Sect. 1.1.

[102] Maskus (2000a), p. 1276.

[103] Maskus (2000a), p. 1276.

[104] Maskus (2000a), p. 1276.

mainly in poor or developing countries. This means that the practice of parallel imports allows poor or developing countries to exploit their "comparative advantage", which is actually the availability of low-cost labour inputs in those countries.[105] According to international trade theory, consumer welfare can be increased on a global level through the efficient allocation of resources among nations, namely through the production of goods in countries where production cost is low.[106]

Fourthly, the phenomenon of price discrimination seems to favour the socioeconomic welfare of poor or developing countries to the detriment of the socioeconomic welfare of rich or developed countries. This position is supported by two arguments. Firstly, under a regime of discriminatory pricing, prices in rich or developed countries are higher and in poor or developing countries are lower compared to the corresponding prices under a regime of freedom of parallel trade.[107] Secondly, goods made available in rich or developed countries have often been manufactured by undertakings operating in poor or developing countries.[108]

Intra-Brand Competition

If a regime of no parallel trade favours discriminatory pricing across national markets with different demand structures, a regime of freedom of such trade allows the emergence of conditions for intra-brand competition between identical or similar products from the same manufacturer, originating in different countries. A consequence of unrestricted parallel trade is the creation of intra-brand competition conditions between authorised and independent sellers in the market of the destination country of the parallel imported goods.

The benefits of intra-brand competition arising as a result of unrestricted parallel trade (ability of consumers to choose between more expensive authorised and cheaper unauthorised goods, existence of low cost distribution channels, and inability of manufacturers to apply discriminatory pricing across national markets) seem to constitute the most powerful arguments that legal literature presents for the legalisation of parallel imports.[109] Offering cheaper goods is also recognised by economic analysis as a factor that promotes consumer welfare in countries where goods are imported in parallel.[110]

However, although a drop in prices in national markets where goods imported in parallel are made available is actually an enhancing factor for the socioeconomic

[105] Abbott (2007), p. 6.

[106] Abbott (2007), p. 6.

[107] Cf. Maskus (2000a), p. 1277.

[108] Cf. Maskus (2000a), p. 1277.

[109] See *infra* section "The Problem of the Legality of Non-price Vertical Restraints".

[110] Abbott (2007), p. 6; Chard and Mellor (1989), pp. 77–79; Danzon (1998), p. 300.

welfare in such countries, this does not necessarily imply a promotion of global socioeconomic welfare, even in the event that parallel trade occurs between national markets with similar demand structures. This is because economic analysis shows that even if the different pricing for a product between two national markets is not part of a discriminatory pricing policy, the freedom of parallel trade may possibly lead to an increase in prices in countries from which goods are exported in parallel and, by extension, to a reduction in socioeconomic welfare in those countries.[111] In any case, based on the findings of a recent economic study,[112] the impact of free parallel trade on the socioeconomic welfare of the exporting and importing countries in total seems to depend on the transaction costs arising in the framework of this practice. More specifically, the freedom of parallel trade does not seem to promote socioeconomic welfare in origin and destination countries when transaction costs (including tariffs) associated with this practice are high. On the contrary, when parallel trade takes place between member states of a regional economic agreement (union of states), which means that transaction costs are low, it is possible that socioeconomic welfare in origin and destination countries is promoted. However, no safe conclusions can be reached regarding the positive or negative impact of the freedom of parallel trade on global socioeconomic welfare.

Consumer Confusion

Even though intra-brand competition arising as a consequence of the freedom of parallel trade in national markets where goods are imported in parallel seems to promote socioeconomic welfare in the markets in question from the standpoint of a drop in prices in those markets, some authors observe that that competition can ultimately lead to a decrease in production efficiency and, further, in total economic efficiency.

In particular, a decrease in economic efficiency and, by extension, in socioeconomic welfare as a result of the freedom of parallel trade may emerge when the main volume of the said trade concerns goods that differ in one or more features (quality, specifications of use, function, or luxury, equipment, guarantee) compared to goods distributed by authorised sellers. If consumers are misled about features that, in their perception, are promised by the trademark affixed to a product, this results in harming the economic value that the said trademark represents and also in discouraging the manufacturer from making investments in maintaining and/or enhancing the economic value of his trademark.[113] The limitation of economic efficiency and, by extension, of socioeconomic welfare is identified, in this context, in that a reduction of investments that manufacturers make in the economic value of their trademarks may deprive consumers of advantages, as for example a stable

[111] This possibility is taken for granted in the economic analysis of parallel trade commissioned by Maskus and Chen (2004).

[112] See the study by Maskus and Chen (2004).

[113] See Gallini and Hollis (1999), p. 5.

level of quality of goods, maintenance of the number (and the quality) of the before- and after-sales services provided to consumers, access to innovative products, for which (advantages) consumers would be willing to pay the corresponding price.[114]

Free Riding

The freedom of parallel trade may lead to a limitation of production efficiency and of economic efficiency in total also where parallel importers act as free riders to the detriment of the authorised distribution network members. The development of the free riding phenomenon in the context of the gray market lies in the fact that parallel importers often distribute their goods by taking advantage of the economic value of the manufacturers' trademarks and without paying the cost of before- and after-sales services that authorised sellers have to cover.

It has been submitted that free riding implies, in the context of parallel trade, a discouragement of investments made by manufacturers in the maintenance and/or enhancement of the economic value of their trademarks.[115] More precisely, it implies a limitation of manufacturers' motivation to invest in a stable level of quality for their goods, to maintain the number (and the quality) of the before- and after-sales services provided to consumers, as well as to make research for developing innovative products.[116] Thus, the fact that independent traders often act as free riders in the context of the gray market may also lead to a decrease in economic efficiency and, by extension, in socioeconomic welfare, in the meaning that it may deprive consumers of advantages linked to the level of investment that the economic value of a trademark represents, for which (advantages) consumers would be willing to pay the corresponding price.

1.3.1.3 Remarks

In the light of the foregoing findings of economic analysis regarding the impact of parallel trade on global socioeconomic welfare, the position that the freedom of the previously mentioned trade promotes the said welfare seems highly doubtful.[117] The findings of economic analysis regarding the benefits arising from the freedom of trade for economic efficiency[118] cannot be unquestionably transposed to parallel trade.[119] The freedom of parallel trade may, indeed, entail in some cases some

[114] Cf. Chard and Mellor (1989), p. 77.

[115] See Gallini and Hollis (1999), pp. 4–5.

[116] Cf. Chard and Mellor (1989), p. 77; Maskus (2000a), pp. 1278–1279.

[117] See also the mathematical analysis by Müller-Langer (2012).

[118] For the benefits of free trade from the standpoint of economic efficiency in general, see Samuelson (1939, 1962).

[119] Cf. also Danzon (1998), p. 299.

positive outcomes for socioeconomic welfare on a global level, such as the "correction" of the misallocation of output, by offering to consumers of rich or developed countries cheaper goods produced in poor or developing countries with a lower cost of production, and the decrease in prices in markets of countries of destination for parallel imported goods. However, it may also provoke unfavourable results for global socioeconomic welfare, such as "closure" of markets in poor or developing countries and a drop in investments in the field of research and development for the production of innovative products. Taking into consideration that the negative impacts of the freedom of parallel trade may concern categories of goods that play a prominent role in safeguarding a basic standard of living for the population of certain countries, such as pharmaceutical products, any attempt to provide a general justification for parallel trade seems extremely risky from an economic point of view. Thus, in the light of the fact that economic analysis does not support a position in favour of or against parallel trade among different countries, it would be wiser to let states and unions of states regulate the issue of the legality of parallel imports with a view to promoting socioeconomic welfare in their national market or in the geographical areas consisted of the national markets of their Member States, respectively.[120] This position is—in substance—adopted by the TRIPs Agreement, which assigns to the competence of its Contracting Parties (Contracting Parties to the WTO Agreement) the regulation of the issue of the legality of parallel imports under intellectual property law, as it will be analysed in Part II of this book in relation to the rights conferred by the trademark (Article 6 of the TRIPs Agreement).[121]

1.3.2 The Parallel Importation Phenomenon from the Perspective of Legal Science

1.3.2.1 Introduction

If the issue of assessing the consequences of parallel imports for the socioeconomic welfare is a typical area of concern for economic science, the issue of the legality of parallel imports is a standard area of concern for legal commentators. The discussion about the legality of the gray market revolves around "trademarked goods", although the phenomenon of parallel imports may concern goods that are protected by any intellectual property right or goods that are not protected by any intellectual property right. This is probably attributed to the fact that the overwhelming majority of cases involving parallel imports' legality that have been addressed to the courts of various countries concern trademarked goods. As, indeed, it results from international case law, the exclusive right flowing from the trademark is the

[120] So Maskus (2000a), p. 1283 and—in substance—Müller-Langer (2012), p. 184.

[121] See discussion *infra* Sect. 3.2.

strongest manufacturers' and exclusive distributors' weapon for the prohibition of parallel imports.[122] The use of the trademark right as a principal means of prohibiting parallel imports may, further, be attributed to the following two factors. Firstly, the protection of that right can cover any product, irrespective of whether there is some creative or inventing attempt reflected on the product; secondly, the protection of the right in question, contrary to the protection of other intellectual property rights, can be unlimitedly renewed. Especially, the second factor justifies why the overwhelming majority of goods available for marketing are definitely protected by a trademark right, in addition to any other intellectual property right.

The concerns of legal literature regarding the issue of the legality of parallel imports, which may explain, up to a certain point, the weakness of some legal orders to adopt clear-cut solutions or the adoption of contradictory solutions among several legal orders on the said issue, are exactly due to the fact that the gray market causes conflict of interests. On one side, the interests of trademark owners lie and on the other, the interests of independent traders, including importers and resellers of gray market goods.

On one hand, trademark owners argue that the legality of parallel imports means that independent traders take unfair advantage of the economic value of their trademarks and also of before- and after-sales services provided by authorised sellers ("free riding on goodwill"—"free riding on services"), consumers are being misled about the features of their products, as well as the economic value of their trademarks is decreased. On the other hand, independent traders dispute the arguments of trademark owners and highlight the benefits of free trade and intra-brand competition developed between them and authorised distribution networks. Protectionist policies are in favour of blocking imports and, consequently, support the interests of trademark owners. On the contrary, trade liberalisation policies support the interests of independent dealers. Between the previously mentioned conflicting interests lie the interests of consumers in countries of destination for parallel imported goods, for whom the legality of parallel importation can be either beneficial or harmful, as shown in the analysis below.

The issue of the legality of parallel imports concerns the legal literature of every country, given that unauthorised imports and sales of goods that are genuine and that have been legally put on the market for the first time can be seen in any national market. However, the subject areas around which the relevant debate revolves have been mainly formulated by American legal literature. There are three approaches that can be distinguished on the issue of the legality of parallel imports. More specifically, a significant number of American legal writers are against the legality

[122] Rothnie (1990), p. 72. Cf. also Hays (2004), para. 9.02, with regard to parallel trade between EU Member States. Exceptions are Australia and New Zealand, where the most powerful weapon against parallel trade is copyright. See Longdin (2001), p. 80.

of the gray market,[123] another significant number of them accept the legality of the gray market under conditions,[124] and, finally, a smaller group of them endorse the legality of the gray market.[125] All three approaches have the same reference point: trademarked goods.

Below are analysed the subject areas around which the argument in favour of and against the legality of parallel imports revolves in American legal doctrine. Then the policies suggested, also in American legal doctrine, in favour of the legality of the gray market under conditions are listed. As a conclusion, evaluations on the problem are formulated.

1.3.2.2 The Discussion Regarding the Legality of Parallel Imports: Subject Areas

Free Riding

Probably the most powerful argument suggested against the legality of parallel imports is that the gray market is a commercial practice in the context of which there is room for what is known in international legal doctrine as "free riding" ("Trittbrettfahren" in German).[126] The phenomenon of free riding is generally observed when a person or persons enjoy benefits without paying for them.[127] In the field of the gray market, independent traders can act as free riders in two ways: firstly, by free riding on goodwill and, secondly, by free riding on before- and after-sales services provided by authorised sellers.

The first form of free riding (free riding on goodwill) is based on the fact that for consumers' demand for a product bearing a specific trademark to be attracted, long-term investments on the part of the trademark owner in various sectors, such as market research, advertising, search for marketing strategies, as well as training of authorised sellers on how to approach their potential customers, are presupposed.[128]

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[123] Opponents of the legality of the gray market are Allen (1988), Bagley (1995), Beyers (1985), Cohen (1986), Gilbert et al. (1986), Goodale (2000), Hansen (1987), Knoll (1986), Lach (1989), Lansing and Gabriella (1993), Liebeler (1987), Miller (1986), Nester (2003), Newman (1987), Nolan-Haley (1984), Upadhye (1996) and Yoshor (1992).

[124] The legality of the gray market under conditions is accepted by Auvil (1995), Barse (1987), Baugh (1986), Bertolino (1987), Davis (1989), Douglas (1988), Ghosh (1994), Hiebert (1983), Iino (1986), Lipner (1990b), Minehan (1991), Peterman (1993), Rubin (1992), Ruff (1992), Rumberger (1988), Sandler (1987), Weicher (1989) and Young (1986).

[125] Supporters of the legality of the gray market are Andrade (1993), Fogel (1986–1987), Gorelick and Little (1986), Kelly (1986), Laufer (1987), Lewin (1986), Mackintosh and Graham (1986), Mazur (1990) and McDermott (1986).

[126] Gilbert et al. (1986), p. 112; Goodale (2000), p. 339; Hansen (1987), pp. 263–264; Knoll (1986), pp. 159–168; Lach (1989), p. 270; Liebeler (1987), pp. 756–757; Miller (1986), pp. 373–374; Nolan-Haley (1984), pp. 234–235; Yoshor (1992), p. 1387.

[127] Knoll (1986), pp. 159–160.

[128] Rumberger (1988), pp. 1107–1108.

The effectiveness of the said investments is assessed on the basis of whether they succeed in cultivating in the consumer the conviction that the product is of high quality and that its potentially high selling price is equivalent to its high quality.[129] In the context of the first form of free riding, an independent trader (free rider) exploits the effectiveness of investments that a trademark owner has made in order to establish his mark as a guarantor of a stable level of quality and as a means of advertising promotion of his product, namely the effectiveness of investments made in the economic value of the trademark of the goods he sells.[130] Opponents of the legality of parallel imports argue that the parasitic exploitation of trademarks' economic value by independent traders results in smaller investments made by trademark owners in marketing, in lower quality products, and in the withdrawal of trademark owners from research and development.[131]

The second form of free riding (free riding on services) is based on the fact that authorised sellers of a product often provide various kinds of services either to potential buyers of the product (before-sales services) or to their customers (after-sales services), which aim at increasing consumers' demand for the product.[132] "Before-sales services" include, for example, the organisation of free training seminars on how to use the product or on its potential added utility value, compared to similar products from other manufacturers. "After-sales services" include technical support, that is to say repair, maintenance, or upgrade of pieces sold.[133] The provision of such services means, evidently, an extra cost for the authorised distribution network, for the amortisation of which the supplier often forces the members of the network to set minimum retail prices for the product [resale price maintenance (RSP)].[134] According to opponents of the legality of the gray market, independent sellers rarely provide potential customers and buyers of their goods with all or part of before-sales and after-sales services provided by authorised sellers. On the contrary, they rather rely on the before-sales services provided by authorised retail sellers, while they also exploit the latter's inability to exclude buyers of parallel imported goods from receiving after-sales services. This means that the cost for the provision of the said services also for unauthorised goods burdens ultimately authorised distribution networks. This situation is, in the view of the opponents of the legality of the gray market, adequate to demonstrate that the gray market jeopardises the amortisation of the cost arising from before-sales and after-sales services provided by authorised distribution networks. They note that the latter may lead to further unfavourable outcomes for consumers, such as reduction of the number or downgrade of the quality of such services.[135]

[129] Knoll (1986), pp. 160–161.
[130] Knoll (1986), pp. 162–163.
[131] Knoll (1986), pp. 163–164.
[132] Knoll (1986), pp. 164.
[133] Knoll (1986), pp. 165.
[134] Knoll (1986), pp. 166.
[135] Knoll (1986), pp. 167.

On the other hand, defenders of the legality of the gray market argue that free riding does not constitute an adequate argument against the legality of parallel imports. They have two arguments in support of their position.

First, they argue that the position that independent dealers do not contribute in the commercial promotion of trademarks affixed to parallel imported goods does not necessarily reflect the reality of the situation. They say that in an environment in which stores compete for a limited number of consumers, an independent trader has as vivid an interest in the advertising promotion of the product he offers for sale and in maintaining and enhancing the economic value of the product's trademark as any other retailer, authorised or not. In other words, the existing inter-brand competition in a market environment obliges both the authorised and the independent (unauthorised) sellers of a product to make investments in the commercial promotion of the product's trademark.[136]

The second argument is that even if the level of investments made by an independent seller for the commercial promotion of the trademark affixed to his product is significantly lower compared to the corresponding investments made by the sellers authorised by the manufacturer of the product, the importer of gray market goods has anyway contributed to the amortisation of the investments made in the commercial promotion of the trademark borne by the goods. This contribution consists exactly in paying the price of the goods when acquiring them in the exporting country.[137]

In conclusion, for the opponents of the legality of parallel imports, free riding is a form of unfair competition, which, among others, can be avoided by providing trademark owners with the power to prohibit the gray market.[138] On the other side of the fence, for the defenders of the gray market's legality, free riding is not an adequate argument to prohibit parallel imports because, firstly, both independent and authorised sellers of a product share the same interest in the commercial promotion of the product's trademark and, secondly, a potentially reduced contribution of an independent seller to the commercial promotion of the trademark affixed to parallel imported goods is offset by the price paid to acquire the goods in the exporting country.[139]

The Consumer Confusion/Deception Problem

As noted above, specific preferences of consumers in different countries regarding the quality, properties, and usability of a product; specific manufacturing standards that the legal frameworks of certain countries impose; or even specific factual

[136] Andrade (1993), p. 428; Fogel (1986–1987), pp. 320 and 322.

[137] Andrade (1993), pp. 428–429; Fogel (1986–1987), pp. 320–321 and 323–326.

[138] Nolan-Haley (1984), pp. 234–235.

[139] Fogel (1986–1987), p. 326.

circumstances (climate, environment, etc.) directing the purchasing choices of consumers in some countries with regard to certain specific types of products may lead to the differentiation of a product's features among national markets.[140] In the light of this observation, opponents of parallel imports' legality support that the gray market can mislead consumers, in the event that the parallel imported goods differ in one or more features (quality, specifications of use, function or luxury, equipment, guarantee) compared to those distributed by authorised sellers.[141] Moreover, they highlight the confusion that gray market goods cause to consumers, as the latter probably wrongly believe that they deal with authorised sellers and not independent traders.[142] Furthermore, they note the possibility that during the transportation of gray market goods across countries, the goods may have been altered or their quality may have changed to the worse.[143] Finally, they underline the risks arising for consumers, when parallel imported goods do not meet the safety or health requirements set by the legal framework of the importing country. They note in addition that those risks may be intensified when the instructions for use related to a good imported in parallel are not written in the official language of the importing country.[144]

Supporters of the gray market's legality respond to the foregoing arguments as follows:

Firstly, the origin function, namely the main function of trademarks, aims at indicating the origin of a product not from a specific country but from a specific undertaking.[145] So, prohibiting parallel imports of trademarked goods, even where the goods differ in some aspect from authorised goods from the same manufacturer which bear the same trademark and which are marketed in the importing country, is not justified in the light of the trademark's primary function. For the trademark's origin function not to be affected, it is enough that the gray market goods are goods that are genuine and that have been legally put on the market for the first time.[146]

Secondly, the scope of the law on trademarks does not include guaranteeing to consumers that all goods (authorised or not) from a specific manufacturer distributed in a specific market have the same features (quality, specifications of use, function or luxury, equipment, guarantee etc.).[147]

Thirdly, the possibility of misleading customers as a result of a potential differentiation of goods distributed by independent sellers from goods from the

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[140] See *supra* Sect. 1.1.

[141] Bagley (1995), pp. 1542–1543; Gilbert et al. (1986), pp. 109–111; Hansen (1987), p. 263; Knoll (1986), pp. 168–171; Lach (1989), p. 270; Liebeler (1987), p. 756; Miller (1986), pp. 374–375; Nolan-Haley (1984), pp. 233–234; Yoshor (1992), pp. 1384–1385.

[142] Nolan-Haley (1984), p. 234.

[143] Gilbert et al. (1986), p. 110; Yoshor (1992), p. 1384.

[144] Gilbert et al. (1986), pp. 110–111.

[145] McDermott (1986), p. 46.

[146] Andrade (1993), pp. 429–430.

[147] McDermott (1986), pp. 46–47.

same manufacturer distributed by authorised sellers can be avoided if the manufacturer informs consumers (through advertising, information brochures etc.) that only certain goods[148] have the features that consumers link to his trademark.[149]

Fourthly, consumers' protection against consequences from the distribution of gray market goods which are potentially negative for their interests can be adequately safeguarded through the legal framework of the importing country.[150]

Fifthly, parallel importers take the necessary measures ensuring non-alteration of the condition of their goods.[151] In any case, the odds of deterioration of gray market goods are the same as those of goods imported through authorised distribution channels.[152]

Sixthly, when the total of goods (authorised or not) from a specific manufacturer distributed in a certain market have been entirely produced in the same country, they can only have the same quality and meet the same use and function specifications, since quality and safety controls take place, as a rule, at the manufacturing level.[153]

Decrease of the Trademark's Goodwill (Economic Value)

Closely linked to the arguments that the gray market is a commercial practice in the context of which there is room for free riding and consumer confusion is the assertion by opponents of parallel imports' legality that the gray market entails a decrease of the goodwill in the trademark affixed to parallel imported goods.[154]

To support the above-mentioned assertion, they primarily note that free riding does not allow a full amortisation of investments that trademark owners make in order to build up the reputation of their rights.[155] Secondarily, they stress the harm that the trademark owner suffers when parallel imported goods bearing the trademark are of lower quality than the quality of goods bearing the same trademark already in circulation in the importing country.[156] Finally, they support that a reduction of the economic value of the trademark may discourage the trademark owner from making investments aiming to increase the economic value of the mark.[157]

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[148] E.g., only goods manufactured in a specific country or sold by specific stores.

[149] McDermott (1986), pp. 47–48.

[150] McDermott (1986), p. 49.

[151] Andrade (1993), p. 430.

[152] Andrade (1993), p. 430.

[153] Andrade (1993), pp. 430–431.

[154] Gilbert et al. (1986), pp. 111–113; Goodale (2000), pp. 339–340; Hansen (1987), p. 263; Lach (1989), p. 270; Liebeler (1987), pp. 756–757; Newman (1987), p. 299; Nolan-Haley (1984), pp. 234–235; Yoshor (1992), p. 1386.

[155] Gilbert et al. (1986), p. 112.

[156] Gilbert et al. (1986), p. 113; Yoshor (1992), p. 1386.

[157] Gilbert et al. (1986), p. 113.

On the other hand, those who defend the legality of parallel imports counter that safeguarding the goodwill that the trademark may symbolise is not a convincing argument against the legality of the gray market for two reasons.

Firstly, the above-mentioned argument ignores that the protection of a sign as a trademark is, at least in principle, unlinked to any economic value that the said sign may have acquired through its use in commercial transactions. So, if the legality of parallel imports for goods whose trademark incorporates an economic value were to be rejected, this would mean discrimination to the detriment of trademarks that simply identify the origin of the products bearing them. However, such discrimination cannot be justified in the light of the scope of trademark law, given that the provision of trademark protection requires only the existence of a sign and the distinctive character of that sign.[158]

Secondly, even if the economic value of a trademark falls as a result of the gray market's legality, the owner of the trademark will still continue investing in its economic value until returns reach zero. But even if returns reach zero, this will just be a result of the market's mechanisms, where trademark law cannot intervene.[159]

The Problem of the Legality of Non-price Vertical Restraints

The issue of the legality of parallel imports is closely linked to the question about the impact on consumer welfare caused by non-price vertical restraints set out in exclusive distribution contracts and exclusive trademark licences, which aim at providing absolute territorial protection, namely at abolishing intra-brand competition.[160]

More specifically, some of the opponents of parallel imports' legality rely on the Chicago School's teaching on non-price vertical restraints[161] in order to justify the prohibition of the gray market.[162] According to that teaching, non-price vertical restraints stipulated in distribution contracts promote consumer welfare by increasing economic efficiency.[163] In the light of the case law of the US Supreme Court, the promotion of consumer welfare through non-price vertical restraints is based on the fact that the said restraints, even though they reduce intra-brand competition, do not allow the members of an authorised distribution network to fully exploit the market. This happens because consumers can turn to a distributor of another region

[158] Andrade (1993), p. 431. See also *supra* Preface.

[159] Andrade (1993), pp. 431–432.

[160] For an economic approach to vertical restraints incorporated into distribution contracts, see Mathewson and Winter (1984, 1986) and Rey and Tirole (1986).

[161] See, *inter alia*, Kallfass (1980) and Posner (1978–1979).

[162] Hansen (1987), pp. 257–262; Miller (1986), pp. 364–368.

[163] The position that vertical restraints may enhance economic efficiency was introduced by Bork (1966) and then was widely supported in the US legal literature. See Flynn (1986), Klein and Murphy (1988), Liebeler (1982), Marvel (1982) and Posner (1981), as well as the authors to whom references are made by Tzouganatos (2001), p. 11 n 21.

and/or to the products of another manufacturer. Moreover, they facilitate intra-brand competition since they allow manufacturers to increase their efficiency regarding the distribution of their products. So, according to the assessments made by economists, non-price vertical restraints are employed by new manufacturers as a motive for capable and aggressive resellers in order to make investments, both in terms of capital and labour, which is usually required in order to establish an unknown product. Moreover, they are used by manufacturers already placed in the market as a motive for resellers for promotion activities of the products and for the provision of the necessary repair and maintenance services.[164]

Contrary to that, the defenders of the legality of parallel imports primarily question the contribution of non-price vertical restraints in the promotion of economic efficiency.[165] In addition, they argue that economic efficiency is rather promoted via liberalisation of international commerce and by providing consumers with the benefits of intra-brand price competition between authorised and independent dealers.[166] Those benefits consist of providing consumers with the possibility of choosing between the more expensive authorised and the cheaper unauthorised goods, the emergence of low-cost distribution channels, as well as the abolition of the manufacturers' ability to employ discriminatory pricing among different national markets.[167]

Unemployment

The arguments presented against the legality of parallel imports include, finally, the argument that such imports entail an increase in unemployment in countries of destination for parallel imported goods.[168] The "contribution" of the gray market to the increase in unemployment lies, according to opponents of its legality, in the fact that competitive pressures that independent dealers exercise over authorised traders may oblige the latter to reduce the workforce employed in their undertakings.

Defenders of the gray market's legality rebut the foregoing argument by saying that the loss of job positions in the stores authorised by manufacturers may be offset by creating jobs in the stores of independent dealers.[169]

[164] See *Continental TV., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 55–56 (1977), also Pitofsky (1978) and Posner (1977). Cf. also Bork (1966), pp. 397–405.

[165] Fogel (1986–1987), pp. 329–333, with references to competition law commentators. Among the authors questioning the contribution of vertical restraints to the promotion of economic efficiency are, indicatively, Comanor (1985); Scherer (1983); and Steiner (1983), pp. 84–89.

[166] Andrade (1993), p. 435; Fogel (1986–1987), pp. 333–335; Mazur (1990), pp. 678–680; McDermott (1986), pp. 51–56.

[167] Andrade (1993), p. 435.

[168] Lansing and Gabriella (1993), p. 333; Nolan-Haley (1984), p. 233.

[169] Fogel (1986–1987), p. 318.

1.3.2.3 Intermediate Policies: Acceptance of the Legality of Parallel Imports Under Conditions

No matter how urgent it may seem, finding the "correct answer" to the question of the legality of parallel imports seems to be a difficult task for national legislators and supranational bodies, given that equally strong arguments can be put forward in favour of and against such imports. In an attempt to bridge the positions of the defenders with those of the opponents of the gray market's legality, various intermediate policies have been suggested, namely policies that accept the legality of the practice in question under conditions. Those policies can be distinguished in two categories.

The first category encompasses policies that accept the possibility of banning a parallel import, provided that it infringes provisions outside the trademark law of the importing country. More specifically, prohibiting parallel imports *in concreto* has been suggested in the light of the provisions of copyright law,[170] of the law of unfair competition,[171] of the law of contract regarding the infringement of contractual obligations,[172] or even of the fraud provisions of the civil or the penal law of the importing country.[173]

The second category includes policies accepting the legality of parallel imports, under the condition that the non-exploitation and non-decrease of the economic value (in general or individual aspects of it) of the trademarks borne by parallel imported goods in the markets of the destination countries are safeguarded.[174] The policies within this category are more specifically as follows:

a) Labelling of parallel imported goods

A large group of US legal authors accepts the legality of parallel imports under the condition that the gray market goods have been labelled in a way that informs the consumer in the official language of the importing country with regard to the different features they bear compared to the goods offered by authorised sellers.[175] According to this policy, independent sellers must inform consumers about any differentiation of their goods compared to those distributed by authorised sellers in quality, specifications of use, function, or luxury, equipment, or guarantees. As rationale for this policy are suggested the

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[170] Friedman (1998), pp. 36–40; Ghosh (1994), pp. 397–402; Rubin (1992), pp. 606–608; Sandler (1987), p. 274.

[171] Ghosh (1994), pp. 402–405; Rubin (1992), pp. 611–612.

[172] Rubin (1992), p. 610; Sandler (1987), p. 274.

[173] Rubin (1992), p. 611; Sandler (1987), p. 274.

[174] The principal aspects of the economic value of the trademark are its guarantee and its advertising functions. See *supra* Preface.

[175] Barse (1987), pp. 403–405 and 407; Baugh (1986), pp. 279–281; Davis (1989), pp. 1423–1424; Douglas (1988), pp. 440–441; Ghosh (1994), pp. 405–407 and 408–409; Minehan (1991), pp. 472–476; Rubin (1992), p. 622; Ruff (1992), pp. 153–154; Rumberger (1988), pp. 1124–1126; Sandler (1987), p. 276; Weicher (1989), pp. 487–489; Young (1986), p. 865.

protection of the goodwill that the trademark of goods imported in parallel symbolises in the market of the destination country, the prevention of attributing gray market goods to the distribution networks of trademark owners, and the perfect information of consumers about the features of the goods offered for sale on the market. However, the efficiency of this policy is put in question via the following arguments[176]: firstly, labelling parallel imported goods could brand the goods as inferior in the eyes of the consumer, although not all gray market goods are, in fact, inferior; secondly, the policy in question is difficult to be enforced; thirdly, many consumers do not read the labels on products, and in many cases brand identification is so strong that consumers often ignore the label; fourthly, the label placed on a good can easily be removed.

b) Debranding (or demarking) of parallel imported goods

Another intermediary solution to the issue of parallel imports' legality could be "debranding" (or "demarking"), where trademarks borne by gray market goods would have to be removed or obliterated before importation.[177] This solution, exactly as "labelling" does, aims at the protection of the goodwill that the trademark of goods imported in parallel symbolises in the importing country and also at the prevention of attributing gray market goods to authorised distribution networks. The policy of "debranding" (or "demarking") seems, however, more drastic than that of "labelling". This happens because in the light of that policy, there is no room for the emergence of free riding. The policy of "debranding" (or "demarking"), however, equals a legislative prohibition of the gray market, as, in order to attract consumer demand, parallel imported goods need to bear the trademark under which they have been put on the market.[178]

c) Establishment of a gray market goods import tax

The intermediate policies with regard to the problem of the legality of parallel imports include the one that suggests a special taxation of parallel imported goods.[179] The purpose of this policy is, on one hand, the prevention of the potentially excessive exploitation of the economic value of trademarks by independent traders through the more favourable, from a taxation stand, treatment of goods imported by authorised distributors compared to goods imported by independent traders and, on the other hand, the maintenance of the consumers' ability to choose between authorised and unauthorised goods.

d) Dependence of the legality of parallel imports on the written consent of the trademark owners

It has been supported that parallel imports should be legally allowed provided that they are made upon written consent of trademark owners.[180] This position

[176] Iino (1986), pp. 206–208; Liebeler (1987), p. 776.

[177] Barse (1987), p. 407; Douglas (1988), p. 440; Newman (1987), p. 317; Young (1986), pp. 863–864.

[178] Douglas (1988), p. 440; Young (1986), p. 864.

[179] Rumberger (1988), pp. 1123–1124.

[180] Beyers (1985), p. 115.

can only theoretically be considered to be an intermediate policy on the issue of the legality of parallel imports. This is because trademark owners do not, as a rule, approve of goods that bear their brands being distributed by independent traders, even if those goods are genuine and have been legally put on the market for the first time.[181]

e) The reasonable loyalty solution

As an intermediate policy to the problem of the legality of parallel imports has been suggested the legality of such imports on the condition that the independent trader that imports gray market goods has paid to the trademark owner a reasonable loyalty for the use of the goodwill that the trademark of the goods symbolises. If the trademark of the goods imported in parallel has not acquired a specific economic value in the destination country, the obligation to pay a reasonable loyalty does not apply.[182] It is obvious that this policy, which could be compared with compulsory licensing of patents, aims at compensating trademark owners for the exploitation or decrease of the goodwill that their trademarks symbolise as a consequence of the latter being used by independent traders.

f) Legality of the gray market under the condition that the trademark of the parallel imported goods does not symbolise a specific goodwill in the destination country.[183]

g) Legality of the gray market per case, on the condition that the relationship between the foreign manufacturer of the goods imported in parallel and the trademark owner in the destination country precludes a danger of harming the goodwill that the trademark borne by the goods symbolises in the destination country.[184]

h) Legality of the gray market, provided that the gray market goods are substantially equal to their authorised counterparts, so that no danger of consumer deception or of harm to the trademark's goodwill arises.[185]

i) Legality of the gray market per case, provided that the court which considers a parallel trade case comes to the conclusion that the benefits from allowing a parallel importation outweighs possible harms to consumers or trademark owners in the importing country.[186]

[181] For the exceptional circumstances under which manufacturers may supply independent traders and, consequently, may favour parallel imports, see *supra* Sect. 1.1.

[182] Peterman (1993), pp. 177–185.

[183] Bertolino (1987) and Hiebert (1983).

[184] Minehan (1991).

[185] Lipner (1990b).

[186] Iino (1986).

1.3.2.4 Remarks

The issue of the legality of the gray market relates to various fields of law, among which the main ones are trademark law, the law of unfair competition, and competition law.

With regard to trademark law, the legality of parallel imports is linked to the level of protection that a certain legal order grants to the trademark's goodwill. The main function of the trademark (origin function of trademarks) is not harmed in the context of such imports, save if the parallel imported goods have been exposed to actions that resulted in the alteration of the features of their identity, namely those features that make consumers connect the goods to a certain undertaking. On the contrary, the prevention of potential exploitation or potential decrease of the trademark's goodwill, namely safeguarding the quality features that the consumer links to the trademark (guarantee function of trademarks) and preventing potential exploitation or potential decrease of the trademark's reputation or distinctive character (advertising function of trademarks), can justify prohibitions of parallel imports. US and Canadian laws confirm this statement. Those laws allow trademark owners to exclude parallel trade on the ground of protection of the economic value of their marks.[187] However, preventing potential exploitation or decrease of the trademark's goodwill is not enough to justify an overall prohibition of the gray market. This is because neither every trademark is linked in the minds of a country's consumers to quality features nor every trademark has a reputation or a highly distinctive character in a national market. Indeed, in the overwhelming majority of countries, allowing the use of the exclusive right flowing from the trademark in order to prohibit parallel imports is rather prompted by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from abroad.[188]

Moreover, under the law of unfair competition, a total or a per se prohibition of parallel imports can be accepted, depending on the meaning that the legislation or the courts' case law of a legal order gives to the term "unfairness in competition". A total prohibition of the gray market in the light of the law of unfair competition means that the use of trademarks of goods imported in parallel is considered to be an unfair commercial practice. A case-by-case prohibition of the gray market in the light of the law of unfair competition presupposes the existence of special circumstances that render the activity of an independent trader unfair, as for instance the encouragement of an independent trader towards an authorised seller to infringe his contractual obligation not to sell goods to independent traders or the creation of impressions by the parallel importer that he belongs to the distribution network authorised by the manufacturer of the parallel imported goods.

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[187] See, for US law, *infra* Sect. 13.1. A similar approach is adopted by Canadian Law (see Peterman 1993, p. 181; Swanson 2000, pp. 347–348).

[188] See *infra* Sect. 1.4.2.4.

Finally, as to competition law, it is observed that providing a manufacturer or an authorised distributor with the power to prohibit parallel imports is consistent with the promotion of inter-brand competition, while the acceptance of the legality of such imports is consistent with the promotion of intra-brand competition by a legal order.

As a final note, it is stressed once again that the legality of parallel imports is an issue that concerns not only the trademark right but also any intellectual property right. The exclusive right flowing from the trademark is evidently, as already stated, the most powerful weapon of manufacturers and authorised distributors in their effort to prohibit parallel trade. However, the rest of intellectual property rights play also an important role in the context of the discussion on the legality of parallel imports with regard to some categories of products. Specifically, patent rights are often used to block parallel imports of pharmaceutical products, copyright to block parallel imports of goods of the entertainment industry and industrial design rights to block parallel imports of spare parts.

1.4 Use of Trademarks as a Means of Barring Parallel Imports

1.4.1 The Problem: Classification of Parallel Imports of Trademarked Goods Cases

As already mentioned in the first lines of this book, it follows from the establishment of the legal protection of the trademark in the distinctiveness of a sign that, in the spirit of modern national legal systems and also of the TRIPs Agreement, the trademark is principally perceived as a distinctive feature of products and services.[189] This means that the primary function of the trademark is, on one hand, the identification of the origin of the product bearing the trademark or of the service during the provision of which it is used and, on the other hand, the distinction of the product or service from products manufactured or traded or from services provided by other undertakings. However, a question arises as to whether the owner of a trademark can invoke the exclusive and absolute protection of his right, even if there is no risk of impairment of the said function. More precisely, a question arises as to whether a trademark proprietor should be entitled to oppose the use by a third party (independent dealer) of a sign similar to the trademark, even if that use concerns goods that are genuine and that have been legally put on the market for the first time. The answer to that question is crucial in the framework of the debate on the legality of parallel imports of goods protected by trademark rights, as the legal literature of the mid-twentieth century realised. The latter rightly identified that the problem of the

[189] See *supra* Preface.

legality of parallel imports of trademarked goods originates in the fact that trademark law is governed by the territoriality principle. That principle implies that the same person or persons that are economically or legally connected hold trademarks consisted in the same sign in different countries at the same time.[190]

Legal writers suggested several classifications of parallel imports of trademarked goods cases.[191] Those classifications were potentially meeting the facts of parallel imports' cases that had been judged by national courts up to the time when they were proposed. However, they do not cover all possible cases of parallel trade of trademarked goods between national markets. In an attempt to globally consider the cases of that trade, it is suggested to divide parallel importation cases into four categories, based on the relation existing between the owner of the trademark of the goods imported in parallel in the exporting country and the trademark owner seeking to prohibit the parallel importation. The adoption of this criterion is motivated by the origin function, the main function of the trademark, which requires parallel imported goods to be genuine goods. In particular, the requirement that trademarked goods imported in parallel are genuine aims at ensuring that the said goods and the goods bearing the same trademark distributed in the importing country by their manufacturer or by authorised (by the manufacturer) sellers have been manufactured and branded under the control of a single body (manufacturer), which also bears the responsibility for the quality level (and other features) of the goods.[192] That body will be the group of undertakings for goods put into circulation by the parent undertaking or subsidiaries of the group, the trademark licensor for goods put into circulation by a trademark licensee, and the manufacturer for goods put into circulation by an authorised (exclusive or selective) distributor.[193] Specifically, the following classification of parallel imports of trademarked goods cases is suggested[194]:

[190] Typical studies of the mid twentieth century regarding the legality of parallel imports of trademarked goods are the following: Ballhaus (1964), Beier (1970) (comparative study), Bicks (1959) (USA), Callmann (1962) (USA), Derenberg (1959) (USA), Donegan (1960) (Canada and UK), Kunz (1966) (Germany), Maday (1960) (Switzerland), Möschlel (1968) (comparative study), Ranft (1970) (Switzerland), Säuberlich (1965) (Germany), Schilling (1965) (Germany), Thomas (1959) (USA), Troller (1960) (Switzerland), Vandenburgh (1959) (USA), Waelbroeck (1964) (comparative study), Wertheimer (1966–1967) (comparative study), Wertheimer (1967) (comparative study) and Wertheimer (1968) (comparative study).

[191] See the classifications made by Beier (1970), pp. 50–51; Takamatsu (1982), pp. 452–453; Ladas (1975), pp. 1326 and 1349.

[192] Cf. Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG,* [1990] ECR I-3711, para. 13; Case C-9/93, [1994] ECR I-2789, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH,* para. 37. See *supra* Sect. 1.1.

[193] Cf. Case C-9/93, n. 192 above, para. 37. Although the ECJ refers only to "exclusive distribution", it is submitted that both exclusive distribution and selective distribution are forms of authorised (by the manufacturer) distribution.

[194] The following classification of parallel importation cases is based on the ECJ's judgment in Case C-9/93, n. 192 above, paras 34 and 35. It is noted that the "principle of exhaustion of rights" mentioned by the ECJ in that judgment is the typical rule for resolving the issue of the legality of parallel imports of trademarked goods (see *infra* Sect. 1.4.2.4).

a) The first category includes the cases of parallel imports where the owner of the trademark of the parallel imported goods in the exporting country and the trademark owner opposing the parallel importation are one and the same person. It is the simplest and most usual category of parallel imports. It is clarified that when it comes to companies, it is considered that the trademark owner in the exporting country coincides with the trademark owner in the importing country also in cases in which either the company-trademark owner in the importing country has established a business division in the exporting country, or vice versa, or the two trademark owners are part of a "single international business enterprise".[195]

b) The second category includes cases of parallel imports where the owner of the trademark of the parallel imported goods in the exporting country and the trademark owner opposing the parallel importation are economically linked by a relationship between a parent undertaking and its subsidiary. Within this category, the trademark owner seeking to bar the parallel importation is a subsidiary undertaking of the owner of the trademark affixed to the goods imported in parallel in the exporting country or, vice versa, the trademark owner seeking to bar the parallel importation is the parent undertaking of the owner of the trademark affixed to the goods imported in parallel in the exporting country. The subsidiary has registered the trademark in its name either by prior assignment or by virtue of express or implied consent by the parent undertaking to such registration.

c) The third category includes cases of parallel imports where the owner of the trademark of the parallel imported goods in the exporting country and the trademark owner opposing parallel importation are legally linked by an exclusive distribution agreement. Within this category, the trademark owner seeking to bar the parallel importation is an exclusive distributor of the owner of the trademark affixed to the goods imported in parallel in the exporting country or, vice versa, the owner of the trademark affixed to the goods imported in parallel in the exporting country is an exclusive distributor of the trademark owner seeking to bar the parallel importation. The exclusive distributor has registered the trademark in its name either by prior assignment or by virtue of express or implied consent by the manufacturer to such registration.

d) The fourth category includes cases of parallel imports where the owner of the trademark of the parallel imported goods in the exporting country and the trademark owner opposing the parallel importation are either economically or legally connected to the same business entity. Within this category, the owner of the trademark affixed to the goods imported in parallel in the exporting country and the trademark owner seeking to bar the parallel importation may be:

aa) subsidiaries of the same group of undertakings. The undertakings have registered the trademark in their names either by prior assignment or by virtue of express or implied consent by the parent undertaking to such registration.

bb) exclusive distributors of the same manufacturer or, in any case, of undertakings belonging to the same group. The distributors have registered the trademark

[195] For the relevant provisions of US law, see *infra* Sect. 13.1.3.5.

in their names either by prior assignment or by virtue of express or implied consent by the manufacturer to such registration.

cc) subsidiary or parent undertaking and exclusive distributor linked economically or legally, respectively, to the same undertaking or, in any case, to undertakings that belong to the same group. The subsidiary and the exclusive distributor have registered the trademark in their names either by prior assignment or by virtue of express or implied consent by the parent undertaking or manufacturer, respectively, to such registration.[196]

In all the above cases of parallel imports, it is taken for granted that the parallel imported goods have been put on the market for the first time by the owner of the trademark in the exporting country or by sellers authorised by the previously mentioned owner. Moreover, it is submitted that the trademark by invocation of which the barring of a parallel import is sought may be used either by the trademark proprietor or by a trademark licensee or by a subsidiary-trademark licensee or by an exclusive distributor-trademark licensee. Thus, the prohibition of a parallel import may be sought by the proprietor of the trademark of the parallel imported goods in the importing country and at the same time by a person who, on the basis of his economic or legal link to the previously mentioned proprietor, is entitled to use the trademark in question.

However, a common feature of all cases of parallel imports is that the use of the trademark of the parallel imported goods in the exporting country and the use of the trademark by invocation of which the prohibition of the parallel importation is sought are under common control, namely that the trademark of the goods imported in parallel is used or, in any event, could be used by the same person in the exporting and the importing countries. Thus, in the first category of parallel importation cases, the use of the trademark of the parallel imported goods belongs to or, in any event, could belong to the trademark proprietor; in the second category of parallel importation cases, it could belong to the parent undertaking; in the third category of parallel importation cases, it could belong to the manufacturer; and in the fourth category of parallel importation cases, it could belong to the parent undertaking or the manufacturer, depending on the relevant facts.[197]

Based on what was mentioned in a previous section of this book, trademark owners seek, by rule, to prohibit parallel importations aiming to safeguard their profits and the profits of authorised (by trademark owners) sellers.[198] So, in order to give an answer to the question of whether the possibility of barring parallel imports by invocation of the exclusive right flowing from the trademark can be accepted, legal doctrine and case law on an international level have proposed the following approaches.

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[196] The first three of the above categories of parallel imports cases are implied by the ECJ in para. 34, while the fourth one in para. 35 of the judgment in Case C-9/93 (n. 192 above).

[197] To the parent undertaking in subcategories (aa) and (cc) and to the manufacturer in subcategory (bb).

[198] See *supra* Sect. 1.1.

1.4.2 Proposed Approaches for Resolving the Issue of the Legality of Parallel Imports of Trademarked Products

1.4.2.1 Assessment of the Legality of Parallel Imports in the Light of the Functions of the Trademark

According to a theory, the legality of parallel imports of trademarked goods should be assessed on a case-by-case basis, based on the criterion of whether a parallel importation operation implies infringement or danger of infringement of the legally protected functions of the trademark affixed to the goods imported in parallel in the importing country.[199] In the light of this theory, three approaches stand out on an international level on the issue of the legality of parallel imports of branded goods.

Based on the first approach, which relies on the traditional teaching that prevailed in Europe, and especially in Germany, until the first half of the last century, the only legally protected function of the trademark is its function to indicate the origin of a product or service from a specific undertaking and to distinguish one product or service from the products and services of other undertakings (origin or primary or main or essential function of the trademark).[200] The limitation of the protection of the trademark to the origin function means that a trademark proprietor cannot, in principle, rely on his right in order to prohibit parallel imports of goods bearing the trademark. The reason for that is that gray market goods are goods that are genuine and that have been legally put on the market for the first time. Therefore, solely in the light of the origin function, the problem of the legality of parallel imports is resolved in favour of the legality, in principle, of this practice. This result is confirmed by the German case law of the first half of the last century, as well as by the American case law of the beginning of the last century, which in support of their position in favour of the legality, in principle, of parallel imports relied, *inter alia*, on the finding that this practice does not imply a risk of the trademark's origin function being impaired.[201] In this

[199] See Beier (1970), p. 63; Takamatsu (1982), pp. 457–459.

[200] See Kunz-Hallstein (1994), p. 154.

[201] See, from the case law of the German Supreme Court, BGH *GRUR* (1964), 372, 373—*Maja* with note by Wolfgang Hefermehl; Beier (1964), p. 205; and BGH *GRUR* (1973), pp. 468, 471—*Cinzano* with note by Ludwig Heydt; Beier (1973), p. 566, where the BGH pointed out that the guarantee function was not protected separately from the origin function and, as a result, could not justify the exclusion of parallel imports of trademarked goods. From the case law of the US courts, see the decision of the District Court of New York in *Apollinaris v. Scherer* [27 F. 18 (2nd Cir. 1886)], where the court ruled in favour of the legality of the contested parallel import on the grounds that the sole purpose of the trademark was limited to the indication of the origin of a product and that the exclusive use of the trademark of a good by the trademark owner was not covered by the scope of trademark law. The aforementioned precedent was confirmed in the decision of the Court of Appeal of New York in *Fred Gretsch Mfg. Co. v. Schoenig* [238 F. 780 (2nd Cir. 1916)], where the court judged that the contested parallel import could not be subject to

respect, it is also pointed out that German case law rejected the legality of parallel imports in cases where the gray market goods had been subject to interference by the parallel importer, without the authorisation of the trademark proprietor, such as to affect the original condition of the goods, the rationale being that in such cases there was a real risk that the trademark's origin function had been impaired.[202]

In the light of the second approach, which emerged in the USA during the first decades of the last century, the legal protection of the exclusive right flowing from the trademark is not restricted to the origin function but also covers the trademark's economic value, that is to say the trademark's guarantee and advertising functions.[203] Under this approach, the assessment of the legality of a parallel importation operation is based on not only the origin function but also the trademark's functions to guarantee a certain quality level (and also other characteristics) in relation to the parallel imported goods and to be a symbol of the trademark proprietor's reputation.[204] This approach still prevails today, as it will be illustrated in Part IV of this book, in American case law, while it is now expressed in American positive law.[205]

Finally, according to the third approach, which was developed by the case law of the European Court of Justice (ECJ), the origin function is the function of the trademark mainly protected by the law but with a wider semantic content than the

the provision of Article 27 of the Trademark Act of 1905, which prohibited the importation of counterfeit goods, that is to say of goods that bore, without authorisation, a trademark identical or similar to a trademark registered in the USA.

[202] The German Supreme Court accepted that there had been infringement of the exclusive right flowing from the trademark in a series of cases in which the original condition of the parallel imported goods was affected, irrespective of whether the trademark of the goods in question were reaffixed: RGZ 103, 359, 364—*Singer (I)*; RG, *GRUR* 1926, 216, 218—*Singer (II)*; RG, *GRUR* 1926, 285—*Linotype*; RGZ 161, 29—*Zählerersatzteile*; BGH, *GRUR Int*. 1984, 240, 242—*Valium Roche*; BGH, *GRUR* 1984, 352—*Ceramix*; BGH, *GRUR* 1990, 678, 679—*Herstellerkennzeichen auf Unfallwagen*.

[203] See, by reference of Hiebert (1990), pp. 484–485 and Peterman (1993), p. 169, a typical quote from a Report of the American Senate on the Lanham Act of 1946, S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S.C.C.A.N. 1274. On the recognition of the protection of the economic value of the trademark by US case law, see Hiebert (1990), pp. 487–497.

[204] In the decision in *U.S. v. Guerlain, Inc.; U.S. v. Parfums Corday, Inc.; U.S. v. Lanvin Parfums, Inc*., 155 F. Supp. 77 (D.C. New York 1957), the District Court of New York stated clearly that the economic value of the trademark was protected under the US trademark law, although it did not guarantee the monopoly of marketing trademarked products. Moreover, in the decisions in *Bell & Howell: Mamiya Supply Co. Corp. v. Masel Supply Co*., 548 F. Supp. 1063 (D.C. New York 1982) and *Osawa & Company v. B & H Photo,* 589 F. Supp. 1163 (D.C. New York 1984), the District Court of New York accepted that there had been infringement of the trademark's guarantee and advertising functions in the context of the parallel importation under consideration, after having made it clear that the protection of the rights conferred by the trademark was governed by the principle of territoriality and not the principle of universality.

[205] Typical are the decisions in *K Mart Corp. v. Cartier, Inc*., 486 U.S. 281 (1988); *Lever Brothers Co. v. United States,* 981 F.2d 1330 (D.C. Cir. 1993); *Original Appalachian Artworks v. Granada Electronics*, 816 F.2D 68 (2nd Cir. 1987); *Société des Produits Nestle v. Casa Helvetica*, 982 F. 2d 633 (1st Cir. 1992). See in detail *infra* Sect. 13.1.3.

one given to the function in question by the traditional German teaching of the first half of the last century. More precisely, following the ECJ's view, safeguarding the origin function of the trademark aims at the protection of the interests not only of the trademark proprietor but, indirectly, also of the consumers/end users of goods bearing the trademark. For the trademark proprietor, the meaning of the protection of the origin function consists in safeguarding that there is no chance for the proprietor in question to be considered accountable for the poor quality of a branded good that has been neither produced nor manufactured under his control.[206] For the consumer/end user, the meaning of the protection of the origin function consists in enabling him to be certain that a trademarked good that is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the trademark proprietor, such as to affect the original condition of the good.[207] In the light of the foregoing considerations, the ECJ has confirmed repeatedly in its case law the legality, in principle, of parallel imports between Member States of the European Community (now European Union). The legality, in principle, of the imports in question has been based on the reasoning that importing and putting into circulation trademarked goods in a Community (now EU) Member State do not impair the "essence" of the exclusive right flowing from the trademark and thus the specific subject matter of the previously mentioned right, so long as the goods have been put onto the market in the Member State from which they were exported by the trademark proprietor (in the importing Member State) or with his consent, as the meaning of the term "consent" was explained in the ECJ's case law.[208] The origin function of the trademark within the above-mentioned meaning has been recognised as "essence" or "essential function" of the exclusive right flowing from the trademark.[209] The guarantee and advertising functions, relevant to the economic value of the trademark, have also been included by the ECJ in the protected, according to Article 36 of the EEC Treaty (now Article 36 of the TFEU), "specific subject matter" of the exclusive right flowing from the trademark, which must not be impaired so that the importation and putting into circulation of trademarked goods in a Member State are in accordance with Community (now EU) law. However, contrary to the origin function, the protection of the aforementioned functions has not been accepted to their full extent, as it is deduced from the ECJ's case law on the legality of parallel imports of pharmaceuticals and luxury products. In particular, in the light of that case law, the ECJ

[206] Cf. Case C-10/89, n. 192 above, para. 13; Case C-9/93, n. 192 above, para. 37.

[207] Cf. Case C-102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH,* [1978] ECR 1139, para. 7.

[208] Case C-16/74, *Centrafarm BV and Adriaan de Peijper v. Winthrop BV,* [1974] ECR 1183, paras 9–12, in particular para. 11. The meaning of the term "consent" was explained in Case C-9/93 (n. 192 above). See in detail *infra* Sect. 7.3.5.4 and section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

[209] Case C-102/77, n. 207 above, para. 7. For the doctrines of "specific subject matter" and "essential function" of the exclusive right flowing from the trademark, see Sects. 7.3.3 and 7.3.4, respectively.

recognises the protection of the advertising function of trademarks, in the sense of the protection of the reputation or the distinctive character of the trademark against possible damage or danger of damage or its unfair exploitation by parallel traders (importers and resellers) and, in fact, irrespective of the existence of a risk of confusion as to the identity of the body under the control of which the parallel imported goods have been manufactured.[210] Furthermore, in the light of that case law, the ECJ recognises the protection of the guarantee function of the trademark within the context of the origin function, in the sense that the trademark proprietor is entitled to oppose the parallel importation of goods bearing the trademark if the original condition of the goods changed after they have been put on the market, without his authorisation.[211]

1.4.2.2 Assessment of the Legality of Parallel Imports in the Light of Competition Considerations

As analysed in a previous point, the debate on the legality of the grey market is associated, *inter alia*, with the approach that one adopts on the issue regarding the effect of non-price vertical distribution restrictions on consumer's welfare.[212] Therefore, the solution to the issue of the legality of parallel imports of trademarked goods could be looked for in the antitrust legislation of the importing country or in the approach adopted by the case law of its courts on the legality of vertical restraints stipulated in distribution contracts or trademark licences that aim at the territorial protection of exclusive distributors or trademark licensees against intra-brand competition from abroad.[213] Delving into the aforementioned issue does not fall within the scope of this book. Nevertheless, in order to demonstrate the different solutions to the problem of the legality of parallel imports that may arise as a consequence of the different approaches adopted by the legislation or the courts of different legal orders, a typical example follows below.

In the USA, the commitment of the Supreme Court to the promotion of inter-brand competition[214] results in the majority of the judicial decisions concerning the substance accepting non-price vertical restrictions that eliminate intra-brand competition and provide total territorial protection to authorised distributors (airtight restrictions) as lawful under Sec. 1 of the Sherman Act.[215] In the European Union,

[210] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark".

[211] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark".

[212] See *supra* section "The Problem of the Legality of Non-price Vertical Restraints".

[213] Takamatsu (1982), p. 455.

[214] A typical example from the case law of the Supreme Court of the USA is the decision in *Continental TV., Inc. v. GTE Sylvania, Inc*, 433 U.S. 36, 47–57 (1977).

[215] See Tzouganatos (2001), p. 43, and the case law referred by the authors mentioned in footnote 101 thereto.

on the contrary, the provision of total territorial protection by virtue of an exclusive distribution contract or a trademark licence is deemed, as a rule, incompatible with Article 101 of the TFEU, given that, based on the EU courts' case law, an agreement that aims to impede parallel trade has, normally, as its object or effect the prevention, restriction, or distortion of competition in the EU's market at the expense of the consumer or end user.[216] It is evident that, on the basis of the case law of the US Supreme Court, the prevention of a parallel importation by exercising the exclusive right flowing from a trademark is highly likely to be deemed legal under Sec. 1 of the Sherman Act, in cases in which such an exercise is founded on a contractual clause that provides for a total territorial protection to an exclusive distributor of a trademarked product or an exclusive trademark licensee. On the contrary, in the light of the case law of the EU Courts, the exercise of the exclusive right flowing from the trademark in order to impede a parallel import is considered, as a rule, as being incompatible with Article 101 of the TFEU, in cases in which such an exercise is founded on vertical distribution restraints.

1.4.2.3 The Principles of Universality and Territoriality of Trademark Rights

According to another approach, the solution to the issue of the legality of parallel imports of trademarked goods can be found in the system that governs the legal protection of trademarks in the destination country for the parallel imported goods.

Until the first decades of the last century, the principle of universality (*Universalitätsprinzip*) prevailed in the case law of European countries' courts and the US courts with regard to the protection of the exclusive right flowing from the trademark.[217] The foundations of that principle, on a European level, lie in the teaching of German theorist *Joseph Kohler*, according to whom that right should be considered as an extension of the trademark holder's personality and, therefore, should enjoy legal protection not only in the country where it has been acquired but in any other country.[218] Application of the above-mentioned principle when considering the legality of a parallel importation would be, certainly, unfavourable for the trademark proprietor. This is because the courts of the importing country would be able to take into consideration circumstances taken place under a foreign state's trademark law. Those circumstances include, in this context, the fact that goods

[216] See Kotsiris (2001), pp. 463–465. This position, which has been settled case law of the European Court of Justice (ECJ) since the mid-1960s, is founded on Joined Cases C-56/64 and C-58/64, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community,* [1966] ECR 322 in the German version, 458 in the Italian version, 450 in the Dutch version, and 429 in the French version.

[217] Derenberg (1961), p. 734; Takamatsu (1982), p. 455.

[218] See Kohler (1884), pp. 216, 270–294, 288–289 and 412–476; also Hoth (1968), p. 64.

imported in parallel are goods that are genuine and that have been in a legal manner put on the market for the first time.[219]

Nevertheless, since the beginning of the 1920s, the principle of universality of trademark protection has been gradually set aside, both in Europe and the USA, in favour of the principle of territoriality, i.e. the territorial protection of trademark rights ("Territorialitätsprinzip" in German). More specifically, since the beginning of the 1920s, many theorists, the most prominent of which was the German theorist *Alfred Hagens*, argued in favour of the principle of territoriality of the exclusive right flowing from the trademark, according to which that right constitutes a legal monopoly, whose validity is restricted to the territory of the country where the right in question has been acquired.[220] The principle of the territorial protection of the rights conferred by the trademark, which is also founded on the Paris Convention of 1883 "on the protection of industrial property",[221] has constituted, at least since the middle of the previous century, a generally recognised principle of trademark law and of industrial property law in general.[222]

The establishment of the principle of territorial protection of trademark rights in the case law of European countries' courts and the US courts made some commentators support that foreign circumstances have no influence on the assessment of the legality of parallel imports of trademarked goods.[223] Those circumstances include, in accordance with what it was said above in relation to the universality principle, the fact that goods imported in parallel are goods that are genuine and that have been in a legal manner put on the market for the first time. Application of such an approach increases the likelihood of relying on the exclusive right flowing from the trademark to exclude parallel imports,[224] except perhaps for parallel imports concerning goods put on the market for the first time in the importing country by the trademark proprietor or with his consent.

[219] See, for instance, from German case law, RGZ 51, 263, 268—*Mariani*—and from American case law the decisions in *Apollinaris Co. v. Scherer*, 27 F. 18, 19 (C.C.S.D.N.Y. 1886) and *A. Bourjois & Co. v. Katzel*, 275 F. 539, 543 (2d Cir. 1921).

[220] See Hagens (1927), § 12, pp. 188–189 Anm. 6. See also Alexander-Katz (1901); Magnus (1923), p. 163. It is interesting to note that *Kohler* himself in the second edition of his book on trademark rights no longer adhered to the principle of universality of trademark rights. In particular, he recognised that the trademark right is a right stemming from the personality of its holder, but its validity is restricted to the territory of its acquisition country (see Kohler 1910, in particular p. 207). This observation is also confirmed by Derenberg (1961), p. 734.

[221] See, in this regard, Dinwoodie (2004), pp. 901–903.

[222] Derenberg (1961), p. 734.

[223] So Ballhaus (1964), p. 64; Koch and Froschmaier (1965), pp. 122–123; von Moser (1968), p. 199; Schilling (1965), p. 16; Troller (1960), pp. 245–246; Troller (1967), p. 261; Trüeb (1962), p. 10.

[224] A typical example from US case law is the judgment in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675, 692 (1923).

1.4.2.4 The Doctrine of Exhaustion of Trademark Rights

For more than a century now, the classic doctrine developed on an international level to resolve the problem of the legality of parallel imports of trademarked goods or goods protected by any other intellectual property right is the doctrine of exhaustion of rights (also known as principle or rule or theory of exhaustion of rights).[225]

The concept of exhaustion of rights is considered to have been introduced by the German jurist *Josepf Kohler* in the context of the German patent law applicable at the end of the nineteenth century, which, if taken literally, allowed a patent right holder to control not only the production and first sale but also all subsequent acts of resale, lending, rental, export, or import of goods covered by his right. More specifically, the foundations of the previously mentioned concept are considered to be found on two theses of *Kohler* regarding the rationale of patent law and the "connection between the forms of commercial use" (*Lehre vom Zusammenhang der Benutzungsarten*).[226] According to *Kohler's* thesis regarding the rationale of patent law, patent law was meant to grant the patentee a reward for his inventive efforts by allocating a monopolistic right that provided the patentee with the power to exclude all others from the commercial exploitation of the patented invention. On the other hand, according to *Kohler's* thesis regarding the connection between the forms of commercial use, the different forms of patent use (production, advertisement, sale, rental, lending, export, import) could not be viewed in isolation but as different expressions of one common right. On the basis of these assumptions, *Kohler* came to the conclusion that after the proprietor of a patent had exercised his right in relation to a good covered by his right, he could no longer invoke his right to control any further commercialisation of the good in question. This limitation did not concern only the form in which the patent holder exercised his right but, since all the forms of patent use should be viewed as different expressions of one common right, any form of exercise of the said right. Thus, in the light of *Kohler's* theses, the proprietor of a patent could not oppose the importation of goods covered by his right after the latter had been put on the market by the proprietor or with his consent, that is to say the right of the patent proprietor was considered to have been exhausted in relation to patented goods put on the market by the proprietor or with his consent, precisely because the proprietor in question had exercised his right by putting the goods into circulation (either personally or through another person) and also had been granted a reward for his inventive efforts.

Soon after *Kohler* had published his theses on the rationale of patent law and the connection between the forms of commercial use, the concept of exhaustion of

[225] Heath (2004), p. 13; Stucki (1997), p. 25. The "doctrine of exhaustion of rights" is expressed in other languages as "αρχή της ανάλωσης του δικαιώματος" (in Greek), "Erschöpfungsgrundsatz" (in German), "épuisement" (in French), "esgotamiento" (in Spanish), "esaustão" (in Portuguese), "shomôriron" or "shojinron" (in Japanese).

[226] See Heath (2004), pp. 14–15. For this teaching, see Kohler (1900), pp. 452–459.

rights was also adopted by the German Supreme Court and, in fact, not only with respect to the patent right but also with respect to the other intellectual property rights and, in particular, with respect to the trademark right and the right to distribute goods protected by copyright.[227] The German Supreme Court, however, limited the scope of the concept in question, as it accepted that for an intellectual property right to have been exhausted, not any form of exercise of the right with regard to a good was enough, but the putting on the market of the good by the holder of the right or with his consent was required.[228] The doctrine of exhaustion of rights was also confirmed in the subsequent case law of the German Supreme Court and also of lower German courts.[229] It is worth noting that the consideration of the doctrine in question drew intense interest amongst German and Austrian academic writers.[230] Nowadays, the doctrine of exhaustion of rights is incorporated into many national and international legal frameworks on trademarks, while some countries adopt that doctrine through the case law of their courts.[231] The same is true also for other intellectual property rights and, in particular, for the patent right and the right to distribute copyrighted goods.

With respect to the exclusive right flowing from the trademark, the semantic content of the exhaustion doctrine, as it is defined in modern international legal literature, is that the holder of a trademark cannot invoke his right in order to oppose commercialisation of goods bearing the trademark once the goods have been put on the market by the holder or with his consent.[232] In other words, the exclusive right flowing from the trademark and, furthermore, the legal powers flowing from that right (offering a good under the trademark, putting a good on the market under the trademark, stocking a good for the previously mentioned purposes under the trademark, importing or exporting a good under the trademark, using the trademark

[227] RGZ 50, 229—*Kölnisch Wasser* (with regard to the trademark right); RGZ 51, 139—*Duotal/ Gujakolkarbonat* (with regard to the patent right); RGZ 51, 263—*Mariani* (with regard to the trademark right); RGZ 63, 394—*Köenigs Kursbuch* (with regard to the right to distribute copyrighted goods).

[228] Eloquently expressed with respect to the patent right, see RGZ 51, 139, 140—*Duotal/ Gujakolkarbonat* and, with respect to the trademark right, see RGZ 51, 263, 265 and 267–268—*Mariani*.

[229] RGSt 36, 178, 179–180—*Schnurlochösen mit Zellouloidumhüllung*; RG Seufferts Archiv Bd. 60, 328—*Vitello*; RGSt 46, 92, 94—*Grüneberger Brause*; RGZ 86, 436, 440—*autogenes Scheidverfahren*; RGZ 133, 326, 330—*Gummitülle*; BGHZ 2, 261, 267–268—*Tauchpumpensatz*; BGHZ 3, 193, 200 = BGH *GRUR* 1959, 232, 233—*Förderrinne*; BGH *GRUR* 1968, 195, 196 r. Sp.—*Voran*; BGH *GRUR* 1973, 518, 520—*Spielautomat*; BGH *GRUR* 1975, 206, 207—*Kunststoffschaumbahnen*; BGH *GRUR* 1975, 598, 600—*Stapelvorrichtung*; BGH *GRUR* 1976, 579, 582—*Tylosin*; BGH *GRUR* 1980, 38, 39—*Fullplastverfahren*.

[230] See Albrecht (1957), Beier (1978), Blachian (1964), Callmann (1963), Finger (1941), Joos (1991), Schawel (1956), Selmayr (1961), Tetzner (1962) and Walter (1975).

[231] See collectively Appendix to this book.

[232] Cf. Cohen-Jehoram (1996), p. 280; Donnelly (1997), p. 447; Heath (2004), p. 14; Rasmussen (1995), p. 174; Stucki (1997), pp. 25–26; Verma (1998), p. 537; Willy (1999), p. 56; Yusuf and von Moncayo (1992), p. 119.

in advertising, and affixing a trademark to a good or to the packaging thereof) are exhausted with respect to an individual item of a product bearing the trademark (not with respect to the product in general)[233] after the item has been put on the market by the holder of the trademark or with his consent. It is obvious that the term "exhaustion" does not, in reality, refer to the trademark right itself but, rather, to the rights conferred by the trademark. In reality, that is to say, the doctrine of exhaustion does not concern the exclusive right flowing from a trademark itself but the rights conferred by a trademark and, in fact, not with respect to the entire production line of a product but only with respect to individual items of the product that bear the trademark and that have been put on the market by the trademark proprietor or with his consent.[234]

It follows from the foregoing definition that the doctrine of exhaustion of the rights conferred by the trademark rests on the concepts of "putting on the market" and "consent".

"Putting on the market" ("Inverkehrbringen" in German) of a trademarked product (trademarked individual item of a product) should be understood to mean the transfer of the power of disposal of the product, pursuant to a contract for the sale of the product, to a third party in relation to the trademark proprietor,[235] that is, not to a natural or legal person linked to the trademark proprietor within the same undertaking or within the same group of undertakings. Such an interpretation is prompted by the following appraisals: firstly, it follows from the purpose of trademark law that for the exhaustion of the exclusive right flowing from a trademark with regard to a specific good to be identified, an act of commercial use of the trademark is required, that is to say an act that allows the origin function of the trademark in question to be developed through the actual distribution of the specific good[236]; secondly, the putting on the market of a trademarked good must allow the trademark proprietor to realise the economic value of the trademark in

[233] See Donnelly (1997), p. 447; Mulch (2001), p. 10 [in relation to the provision on the exhaustion of rights of the German trademark law (Article 24 (1) MarkenG)]; Ingerl and Rohnke (2003), § 24, p. 1186, Nr. 16 [in relation to the provision on the exhaustion of rights of the German trademark law [Article 24 (1) MarkenG)]; Case C-173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v. G-B Unic SA*, [1999] ECR I-4103 [in relation to the exhaustion of rights provision of Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC)]. For the aforesaid decision, see in detail *infra* Sect. 9.5.2.3.

[234] So also Heath (2004), p. 13.

[235] Cf. Case C-16/03, *Peak Holding AB v. Axolin-Elinor AB (formerly Handelskompaniet Factory Outlet i Löddeköpinge AB*), [2004] ECR I-11313, paras 39–43; Fezer (2009), § 24 MarkenG, p. 1626, Nr. 11, in relation to the provision on the exhaustion of rights of the German trademark law [Article 24 (1) MarkenG].

[236] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 235 above, point 42, in relation to the exhaustion of rights provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC; see discussion *infra* Sect. 9.3]; also Fezer (2009), § 24 MarkenG, p. 1626, Nr. 11; Harriehausen (2004), p. 92; OLG Stuttgart *NJW–RR* 1998, 482; OLG Nürnberg *WRP* 2002, 345, 346; OLG Hamburg *GRUR-RR* 2003, 335, 336, in relation to the provision on the exhaustion of rights of the German trademark law [Article 24 (1) MarkenG].

relation to that good through the shifting of the profit or loss, namely the economic risk, of any onward sale of the good from the trademark proprietor to a third party[237]; and, thirdly, the circulation of a good within the same undertaking or within the same group of undertakings does not permit the good to be released into the market and, by extension, does not permit the origin function of the trademark borne by the good to be developed.[238]

With respect to the concept of "consent" ("Zustimmung" in German), it is submitted that goods that have been put on the market by the proprietor of the trademark borne by the goods or with his consent are recognised by various national provisions on exhaustion of trademark rights, as well as case law and legal literature on an international level to be goods put on the market by a person economically or legally linked to the proprietor in question.[239] In particular, goods that have been put on the market by the proprietor of the trademark affixed to the goods or with his consent are recognised by various national provisions on exhaustion of trademark rights, as well as case law and legal literature on an international level to be goods put on the market by the parent or a subsidiary undertaking of the trademark proprietor or by an authorised (exclusive or selective) distributor of the trademark proprietor or by a trademark licensee.[240] Moreover, it is clarified that the doctrine of exhaustion of rights does not cover only the right of a trademark proprietor–manufacturer or a trademark proprietor–parent undertaking. It also covers the right of a trademark proprietor–exclusive distributor and the right of a trademark proprietor–subsidiary undertaking.[241] Indeed, the latter cannot, by virtue of the doctrine in question, oppose the use of their trademark by a third party with respect to goods put on the market by the trademark proprietor–manufacturer or the trademark proprietor–parent undertaking, respectively, or even by other exclusive or selective distributors (trademark proprietors or not) or subsidiary undertakings

[237] Cf. Case C-16/03, n. 235 above, para. 42, in relation to the exhaustion of rights provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC; see *infra* Sect. 9.3].

[238] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 235 above, point 42 and n. 25 thereto, in relation to the exhaustion of rights provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC; see *infra* Sect. 9.3]; Fezer (2009), § 24 Marken G, p. 1626, Nr. 11; Harriehausen (2004), pp. 92–93, in relation to the provision on the exhaustion of rights of the German trademark law [Article 24 (1) MarkenG].

[239] On the contrary, goods put on the market by a commercial agent of the proprietor constitute goods put on the market by the proprietor himself, given that a commercial agent acts in the name of and for the account of the principal. For the commercial agency contract, see Babetas (2003), pp. 12–14; Mastrokostas (2005), pp. 17–22.

[240] See indicatively Rasmussen (1995), p. 174; Stucki (1997), p. 26 n. 117; Cf. also Case C-9/93, n. 192 above, para. 34, according to which goods put on the market with the consent of the proprietor of their trademark are considered to be those put on the market by the parent or a subsidiary company of the trademark proprietor, by an exclusive distributor of the trademark proprietor, as well as by a trademark licensee. For a detailed discussion, see *infra* Sect. 9.5.2.4. It is taken for granted that the licensee had the power to put on the market the goods he produced.

[241] Cf. Case C-9/93, n. 192 above, para. 35.

(trademark proprietors or not) of the aforementioned trademark proprietors. It is not, of course, completely accurate to suggest that an exclusive distributor has consented to goods being marketed by the manufacturer or by a undertaking belonging to the same group as the manufacturer or, finally, by another exclusive or selective distributor of the manufacturer or of an undertaking belonging to the same group as the manufacturer. Similarly, it is not completely accurate to say that a subsidiary undertaking has consented to goods being marketed by its parent undertaking or by another subsidiary undertaking belonging to the same group or, finally, by an exclusive or selective distributor of the parent undertaking or another subsidiary undertaking belonging to the same group. However, at least two factors support the view that in cases where the right of the trademark owner–manufacturer or of the trademark owner–parent undertaking is considered to have been exhausted, the right of a trademark owner–exclusive distributor or of a trademark owner–subsidiary undertaking must be considered to have been exhausted too. The first one is that there are especially close ties between an exclusive distributor and the manufacturer and between a subsidiary undertaking and its parent undertaking.[242] The second one is that an exclusive distributor or a subsidiary undertaking has normally acquired its rights on the basis of a prior assignment by the manufacturer or by the parent undertaking, respectively, or an express or implied consent by the manufacturer or by the parent undertaking, respectively, to such registration.[243] In the light of these two factors, it would be, indeed, absurd to accept that a trademark owner–exclusive distributor or a trademark owner–subsidiary undertaking has more rights with regard to a specific trademarked good than the trademark owner–manufacturer or the trademark owner–parent subsidiary, respectively, has with regard to the same good. Finally, for the sake of completeness, it is noted that, pursuant to the doctrine of exhaustion of rights, not only the trademark proprietor but also persons who use the trademark by virtue of their economic or legal links to the trademark proprietor [(exclusive or selective) distributors, trademark licensees, subsidiary undertakings] cannot oppose the use of the trademark of a good that has been put on the market by the trademark proprietor or with his consent.[244]

The legal effect of the exhaustion of the right of a trademark proprietor is that the trademark proprietor can control the use of his trademark with respect to a specific good (individual item of a product) only until the good is put on the market by the

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[242] The authorised distributor has been characterised by a legal author as “an extension of the supplier’s arm”. See Ulmer (1969), p. 3; also Keeling (2003), p. 84, who observes that “the economic links between a manufacturer and a distributor of goods (especially an exclusive one) are so strong that, where the former assigns his trade mark or patent rights to the latter, the two are clearly involved in a joint enterprise to exploit intellectual property rights”. The strong economic links between a parent undertaking and a subsidiary undertaking is rather obvious. Both undertakings coordinate their marketing policy in the common interest of the group to which they belong. Cf. Opinion of Advocate General Gulmann in Case C-9/93, n. 192 above, point 68.

[243] See the classification of parallel imports suggested in *supra* Sect. 1.4.1.

[244] Cf. Tritton (2002), para. 7-013, in relation to Articles 28 and 30 EU Treaty (now Articles 34 and 36 of the TFEU).

trademark proprietor himself or with his consent. Agreements on the basis of which the owner of a trademark retains the power to control further commercialisation of the good, in the sense that he may prohibit it or make it dependent on compliance with any established contractual obligations (e.g., price, territorial, or customer restrictions), are of a contractual nature and, moreover, are subject to the applicable competition law. This means that any breach of the above-mentioned agreements can lead only to claims for damages in favour of the trademark proprietor and, indeed, only to the extent that the above-mentioned agreements are considered to be legal in the light of the applicable competition law.[245]

As mentioned above, the doctrine of exhaustion of rights has gained added importance regarding the discourse on the legality of parallel imports. Trademark uses that cannot, in principle, be prohibited under the doctrine of exhaustion of rights are those made when an independent trader imports and puts into circulation in a country trademarked goods that have been put on the market in another country by the trademark owner or with his consent. In reality, the doctrine under consideration covers all the cases of parallel trade of trademarked goods, as those cases were mentioned in a previous point.[246]

In particular, the rule of exhaustion of rights covers the case where the trademark proprietor seeking to exclude a parallel importation coincides with the proprietor of the trademark of the parallel imported goods in the exporting country. In such a case, the goods imported in parallel have been put on the market either by the trademark proprietor in the importing country or with his consent, namely by a trademark licensee or by an authorised (exclusive or selective) distributor or by a subsidiary undertaking of the trademark proprietor.

Furthermore, the rule of exhaustion of rights covers cases where the trademark proprietor seeking to exclude a parallel importation is linked to the proprietor of the trademark of the parallel imported goods in the exporting country either economically, namely by virtue of a relationship such as that between the parent and a subsidiary undertaking of the same group (or vice versa), or legally, namely by virtue of a relationship such as that between an exclusive distributor and a manufacturer (or vice versa). In such cases, the goods imported in parallel have been put on the market with the consent of the trademark proprietor in the importing country. The consent of the aforementioned proprietor is deduced precisely from his economic or legal ties with the proprietor of the trademark affixed to the parallel imported goods in the exporting country. According to what was said above, consent is considered to exist not only on the part of the parent undertaking or the manufacturer but also, if the trademark right by reference to which the exclusion of the parallel importation is sought belongs to an exclusive distributor or to a

[245] Baumbach and Hefermehl (1985), § 15 WZG, p. 668, Nr. 46; Fezer (2009), § 24 MarkenG, p. 1628, Nr. 14, while, from German case law, see RGZ 50, 229—*Kölnisch Wasser*; RGZ 51, 263—*Mariani;* RGZ 103, 359—*Singer (I)*. Cf. also Antonopoulos (2005), p. 477, Nr. 591, Marinos (1996), Nr. 37, in relation to the provision on the exhaustion of rights in Greek trademark law [Article 20 (3), subparagraph 1 of Law 2239/1994].

[246] Cf. the classification of parallel imports suggested in *supra* Sect. 1.4.1.

subsidiary undertaking, on the part of the exclusive distributor or of the subsidiary undertaking, respectively.

Finally, the rule of exhaustion of rights covers cases where both the trademark proprietor seeking to exclude a parallel importation and the proprietor of the trademark affixed to the parallel imported goods in the exporting country are linked either economically, namely by virtue of a relationship such as that between the parent and a subsidiary undertaking of the same group (or vice versa), or legally, namely by virtue of a relationship such as that between an exclusive distributor and a manufacturer (or vice versa), to the same person. The goods imported in parallel have been put on the market, also in such cases, with the consent of the trademark proprietor in the importing country. As previously said, the consent of the aforementioned proprietor rests precisely on the assumption that when the right of the trademark proprietor–manufacturer or the trademark proprietor–parent undertaking is considered to have been exhausted, the same must hold true for the right of the trademark proprietor–exclusive distributor or the trademark proprietor–subsidiary undertaking.

Based on the above, the "consent" of the proprietor of a trademark within the meaning of the doctrine of exhaustion of rights confirms the finding made in a previous point, namely that a common characteristic of all parallel imports of trademarked goods cases is that the use of the trademark affixed to the parallel imported goods in the exporting country and the use of the trademark affixed to the parallel imported goods in the importing country are under common control, namely that the trademark affixed to the goods imported in parallel is used or, in any event, could be used by the same person in the exporting and the importing countries.[247]

However, the doctrine of exhaustion of rights does not entail the legality, in principle, of any parallel import. On the contrary, the doctrine in question entails the legality, in principle, of parallel imports of trademarked goods, depending on the particular exhaustion of trademark rights regime adopted by the legislation or the case law of the courts of the importing country. In particular, there are three regimes of exhaustion of the exclusive right flowing from the trademark and, in general, of intellectual property rights, or, to use a different terminology, there are three types of the doctrine of exhaustion of intellectual property rights on an international level[248]:

[247] Cf. Case C-9/93, n. 192 above, para. 39; Opinion of Advocate General Stix-Hackl in Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, point 79.

[248] For this distinction, see Abbott et al. (1999), p. 606; Abbott et al. (2007), pp. 277–278; Freytag (2001), p. 20; Hays (2004), pp. 8–12; Heath (2002), p. 27; Maskus (2000b), p. 208; Rasmussen (1995), p. 174; Slotbooom (2003), p. 421; Stucki (1997), pp. 27–28; Verma (1998), p. 539. This distinction is also adopted by the World Intellectual Property Organization (WIPO) (see http://www.wipo.org/sme/en/ip_business/export/international_exhaustion.htm).

a) regime or doctrine of "national exhaustion" or "domestic exhaustion"[249] or "territorially limited exhaustion"[250]: in the light of the regime/doctrine of "national exhaustion of rights", the proprietor of a trademark may be opposed to parallel imports of goods bearing the trademark (individual items of a product), save if the goods have been put on the market in the importing country by the proprietor himself or with his consent.[251] The regime of national exhaustion of trademark rights is the most restrictive for parallel trade. By virtue of that regime, parallel imports are legal only if they concern trademarked goods put on the market in the importing country by the trademark proprietor or with his consent. The judicial or legislative recognition of the principle of national exhaustion of the rights conferred by the trademark may be prompted either by the extent of protection that a country recognises with respect to the economic value of the trademark or, as a rule, by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from abroad. So, for example, the rationale of the principle of national exhaustion of trademark rights adopted de facto by the US legislation and the courts in Canada is to prevent potential exploitation or potential decrease of the economic value of trademarks affixed to parallel imported goods.[252] On the contrary, in the overwhelming majority of the countries recognising the principle in question (developing African nations,[253] small countries having a low presence in international commerce,[254] or even large countries having an emerging presence in international commerce[255]), this is dictated probably by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from abroad.[256] It is noted that the regime of national exhaustion of trademark rights may theoretically concern certain classes of products, although international practice suggests that nations adopt a uniform policy

[249] The terminology "domestic exhaustion" is employed by Verma (1998), p. 539.

[250] The terminology "territorially limited exhaustion" is employed by Soltysinski (1996), p. 317.

[251] For nations and unions of nations that recognise through legislation or through the case law of their courts a doctrine of national exhaustion of trademark rights, see Appendix to this book.

[252] So also Peterman (1993), p. 181. For the USA, see in detail *infra* Sect. 13.1.

[253] For example, Gambia, Liberia, Lesotho, Madagascar, Mauritius, Mozambique, Botswana, Namibia, Cape Verde, Rwanda, Sao Tome and Principe, as well as the Member States of the African Intellectual Property Organization (OAPI).

[254] For example, San Marino, Antigua and Barbuda, Albania, El Salvador, Cambodia, Croatia, Montenegro, Barbados, Bhutan, Sri Lanka and Tonga.

[255] For example, Brazil, Belarus, Turkey and Russia.

[256] See, for example, for Brazil Stirling (1992–1993), pp. 306–307; and for Turkey Taylan (2003). Also, in relation to Russia, it is submitted that the principle of national exhaustion was incorporated into the Trademark Law of the Russian Federation in 2002. Previously, it provided for international exhaustion. That amendment was probably made due to the development of the imported goods distribution in Russia. See, for the aforementioned states, *infra* Sects. 13.3, 13.6 and 13.9, respectively.

and not one for each product category, regarding the issue of the legality of parallel imports.[257]

b) regime or doctrine of "regional exhaustion": in the light of the regime/doctrine of "regional exhaustion of rights", the proprietor of a trademark may be opposed to parallel imports of goods bearing the trademark (individual items of a product), except if the goods have been put on the market in a specific union of states by the proprietor himself or with his consent. A doctrine of regional exhaustion with regard to not only the exclusive right flowing from the trademark but also the other intellectual property rights is adopted by EU legislation.[258] The latter binds, on the question of exhaustion of intellectual property rights, not only the EU Member States but also all of the Member States of the European Economic Area (EEA), namely also the Member States of the European Free Trade Association/European Economic Area (EFTA/EEA).[259] As demonstrated in detail further on, the adoption of a regime of regional exhaustion or, otherwise, the non-adoption of a regime of international exhaustion of rights by EU law on trademarks has been probably prompted by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from outside the EEA.[260] With the exemption of the European Union and the EEA, no Free Trade Area or Common Market and no union

[257] The exhaustion model under which certain classes of products are subject to international exhaustion while others are subject to only national exhaustion is identified by *Donnelly* as "Selective International Exhaustion by Product Class" (see Donnelly 1997, p. 499).

[258] See *infra* Sect. 8.1.2 and the references thereto.

[259] See Article 7 (1) of Directive 2008/95/EC with regard to the exclusive right flowing from the national trademark and Article 13 (1) of Regulation (EC) 207/2009 with regard to the exclusive right flowing from the Community trademark. According to the ECJ's case law (Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH,* [1998] ECR I-4799), the EU Member States are precluded from recognising the principle of international exhaustion of national trademark rights. The commitment of the Member States of the EFTA/EEA to Article 7 (1) of Directive 2008/95/EC follows from Article 2 (1) of Protocol 28 to the European Economic Area (EEA) Agreement. As it has been accepted, indeed, recently by the EFTA Court (Joined Cases E–9/07 and E–10/07, *L'Oréal Norge. AS v. Per Aarskog AS and L'Oréal SA v. Smart. Club AS*, [2008] EFTA Court Reports 259), the EFTA/EEA Member States are also banned from recognising the principle of international exhaustion of trademark rights (see analysis of the aforesaid decisions in *infra* Sect. 9.4.4).

The regime of regional exhaustion of intellectual property rights (IPRs), which was adopted by the European Community and its Member States, has been referred to in the legal literature as "Community-wide exhaustion" of IPRs regime (see Ansgar 1999, p. 514; Verma 1998, p. 539) or "EC–wide exhaustion" of IPRs regime (see Cohen-Jehoram 1999, p. 496). However, after the European Union succeeded and replaced the European Community [by virtue of Article 1, subparagraph 3 of the TEU, as replaced by the Lisbon Treaty (signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009)], the terms "EU–wide exhaustion" or "intra-Union exhaustion" of IPRs seem more appropriate (see Abbott et al. 1999, p. 1341, who use the term "intra-Union exhaustion").

[260] This conclusion arises from a historical interpretation of Article 7 of Directive 2008/95/EC. See *infra* Sect. 9.4.5.4.

of states in general obliges its Member States to adopt a regime of regional exhaustion of trademark rights.[261]

c) regime or doctrine of "international exhaustion" or "worldwide exhaustion"[262] or "universal exhaustion"[263]: in the light of the regime/doctrine of "international exhaustion of rights", the proprietor of a trademark cannot be opposed to parallel imports of goods bearing the trademark (individual items of a product), provided that the goods have been put on the market in any country by the proprietor himself or with his consent.[264] The regime of international exhaustion of trademark rights is the most favourable for parallel trade. By virtue of that regime, any parallel import of trademarked goods is, in principle, legal. The doctrine of international exhaustion of trademark rights is adopted mainly by major exporting countries.[265] Furthermore, that doctrine is acknowledged by the regulatory frameworks on intellectual property or trademarks of certain unions of nations and, in particular, by the framework on intellectual property of the Andean Community and the Trans-Pacific Strategic Economic Partnership Agreement, as well as the Mercosur framework on trademarks. The Member States of the aforementioned unions of countries also adopt a rule of international exhaustion of trademark rights, with the exception of Brazil, a Member State of Mercosur, which recognises the principle of national exhaustion with respect to the exclusive right flowing from the trademark.

The doctrine of exhaustion of trademark rights is confused on many occasions with the doctrines of territoriality and universality of those rights. Specifically, some writers refer to the principle of territoriality in conjunction with the doctrine of national exhaustion of trademark rights[266] and to the principle of universality in conjunction with the doctrine of international exhaustion of trademark rights.[267] In this author's view, this appears not to be correct.[268] The principles of territoriality and universality of rights are rules of international private law, which reply to the question of which country's law governs the protection of the right of a trademark owner (the country in which the protection of the right is requested or the country in

[261] Legal writers note the need for the NAFTA Member States to adopt a regime of regional exhaustion of intellectual property rights, including the exclusive right flowing from the trademark. See Gonzalez (1993), pp. 320–329; Verma (1998), p. 558. However, up until now, no such development took place. Belize, a Member State of the Community of Caribbean, is an individual Member State that adopts a doctrine of regional exhaustion of trademark rights.

[262] Verma (1998), p. 536.

[263] Cohen-Jehoram (1999), p. 496.

[264] For nations and unions of nations that through legislation or the case law of their courts recognise the principle of international exhaustion of trademark rights, see Appendix to this book.

[265] These states include Egypt, Australia, Vietnam, India, Mexico, New Zealand, South Africa, Ukraine, Singapore, Taiwan, Hong Kong, Argentina, Switzerland, Japan, Malaysia, and Thailand.

[266] See Andrade (1993), pp. 426–427; Perrott (1988), p. 46; Rinnert (2000), pp. 32–35; Yusuf and von Moncayo (1992), pp. 119–120.

[267] See Rinnert (2000), pp. 32–35; Rothnie (1993), p. 4.

[268] So also Stucki (1997), p. 26.

which the right has been acquired correspondingly). The doctrine of exhaustion of rights, on the contrary, concerns the limits of the right of a trademark owner and focuses on the effect that the putting on the market of a good protected by such a right in a certain country has on the exercise of the right in question.

However, the doctrine of exhaustion of trademark rights is not accepted without exceptions. Indeed, as it is reaffirmed by various legal frameworks for trademarks, that doctrine is not applicable where the proprietor of a trademark has “legitimate reasons” to oppose parallel importation of goods protected by his right. “Legitimate reasons” justifying the non-application of the rule of exhaustion of the exclusive right flowing from the trademark arise, based on various supranational and national provisions and also the ECJ’s case law, firstly, where the condition of the parallel imported goods is changed or impaired after they have been put on the market and, secondly, where a parallel importer or an independent reseller uses the trademark affixed to the goods in a way that damages the reputation or the distinctive character of the trademark or creates a risk of such damage or constitutes an unfair exploitation of the reputation or the distinctive character of the trademark.[269]

1.4.3 Comments: Preference of the Doctrine of Exhaustion of Rights

Moving ahead with a criticism of the approaches presented above, the following assessments may be formulated.

As for the approach that suggests that the legality of parallel imports should be assessed in the light of the (legally protected) trademark’s functions, it is, indeed, to be praised for it separates the legitimate interest of trademark proprietors in the legally protected functions of their trademarks being smoothly developed from their

[269] The exclusion of the applicability of the doctrine of exhaustion of trademark rights under certain conditions is identified by *Donnelly* as “Rule of Reason Exhaustion Model” (see Donnelly 1997, pp. 499–501).

The position that the doctrine of exhaustion of rights is not applicable where the condition of trademarked goods is changed or impaired after they have been put on the market has been always accepted by the case law of the German Supreme Court. See RGZ 103, 359, 364—*Singer (I)*; RG, *GRUR* 1926, 216, 218—*Singer (II)*; RG, *GRUR* 1926, 285—*Linotype*; RGZ 161, 29—*Zählerersatzteile*; BGH, *GRUR Int.* 1984, 240, 242—*Valium Roche*; BGH, *GRUR* 1984, 352—*Ceramix*; BGH, *GRUR* 1990, 678, 679—*Herstellerkennzeichen auf Unfallwagen*. For national or supranational provisions regarding the exclusion of the application of the principle of exhaustion of trademark rights, see collectively Appendix to this book. It is noted that there has been a copious case law of the ECJ regarding the provision of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], which excludes the application of the rule of exhaustion of national trademark rights where there exist legitimate reasons for the trademark proprietor to oppose further commercialisation of goods that bear the trademark and that have been put on the market in the European Community (now European Union) by the trademark proprietor or with his consent. For an analysis of the aforesaid case law, see *infra* Chap. 10.

improper insistence on controlling the channels of distribution for branded goods between different national markets. However, a major weakness of the above-mentioned approach is, according to this book, that it causes a great deal of uncertainty to independent traders with respect to whether a specific parallel importation gives rise to an infringement of the legally protected functions of the trademark borne by the goods concerned in the importing country. That uncertainty derives from the finding that the questions of which of the economic functions of the trademark are legally protected and under which conditions an economic function of the trademark is covered by legal protection are still not fully answered by the courts of many nations.[270] Moreover, it must be noted that the above-mentioned approach also appears unsatisfactory in the light of the fact that it does not take account of the economic nature of the phenomenon of parallel imports.[271]

Regarding the approach on the basis of which the legality of parallel imports should be assessed in the light of competition considerations, its shortcoming lies in the fact that its application depends on whether the facts of a case concerning the parallel importation of trademarked goods fall within the scope of application of rules protecting free competition in the importing country. In particular, where the exercise of a trademark right with the intention to exclude a parallel import rests on a clause that provides for a total territorial protection to an exclusive distributor of a trademarked product or an exclusive trademark licensee, such an exercise falls, normally, in accordance with the case law of the European Union courts, under the prohibition of Article 101 (1) of the TFEU.[272] Furthermore, as it has been accepted by the US courts, it is possible, in the light of the rule of reason, to ascertain that the benefits for inter-brand competition are not adequate so as to justify a reduction of intra-brand competition by providing absolute territorial protection to the distributor.[273] The approach under consideration cannot, however, serve as a basis for an overall solution to the issue of the legality of parallel imports of trademarked goods. This is because the exclusion of a parallel import by invoking the exclusive right flowing from the trademark of the goods concerned does not necessarily fall under a rule protecting free competition. So, for example, Article 101 of the TFEU (ex-Articles 81 of the EU Treaty and 85 of the EEC Treaty) cannot solve the issue of the legality of a parallel importation that is attempted to be excluded unilaterally, namely only on the basis of the territorial protection of the trademark of the parallel imported goods and not contractually, namely by virtue of a contractual clause that provides absolute territorial protection to an exclusive

[270] Cf. Takamatsu (1982), p. 454 n. 124.

[271] As *Rothnie* notes, the solutions adopted and the positions expressed on the issue of the legality of parallel imports by legislators and legal commentators, respectively, often contradict the findings of relevant economic studies (Rothnie 1993, pp. 3–4).

[272] From the case law of the European Union Court of Justice, see Joined Cases C-56/64 and C-58/64, n. 216 above; Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69; Case C-22/71, *Béguelin Import Co. v. S.A.G.L. Import Export*, [1971] ECR 949.

[273] See *Graphic Products Distributors Inc. v. Itec Corp.,* 717 F. 2d 1560 (11th Circuit), also Tzouganatos (2001), pp. 43–44 n. 101 and p. 168 n. 505.

distributor of a trademarked product or an exclusive trademark licensee. Furthermore, Article 102 of the TFEU (ex-Articles 82 of the EU Treaty and 86 of the EEC Treaty) fails to answer the question of the legality of a parallel importation when the undertaking seeking to prohibit the importation by exercising its trademark right does not hold a dominant position in the EU market. The failure of free competition law to offer an overall solution to the issue of the legality of parallel imports of trademarked goods is precisely due to the fact that that issue is rather linked to the scope of the principle of free movement of goods between countries. Examination of the issue in question under competition law is possible only in the context of the debate concerning the legality of vertical restraints that grant absolute territorial protection to authorised distributors or trademark licensees.

With respect to the principle of territoriality of trademark rights, its mobilisation in the attempt to resolve the issue of the legality of parallel imports of trademarked goods must unreservedly be excluded for dogmatic reasons. That principle simply constitutes a private international law rule that dictates, firstly, that the conditions for the legal protection of the rights conferred by a trademark are exclusively regulated by the law of the nation in which such protection is pursued and, secondly, that the legal protection of the said rights is limited to the territory of the country where the trademark right has been acquired.[274] The principle of territorial protection of trademark rights does not preclude, when assessing the legality of an import of trademarked goods, to take account of facts that took place under a foreign trademark law such as the facts that parallel imported goods are goods that are genuine and that have been legally put on the market for the first time.[275] Besides, the use of the principle in question as a rule for resolving the issue of the legality of parallel imports comes up against the right observation that the use of a trademark in international trade cannot be separately considered country by country but rather must be regarded as one uniform economic phenomenon.[276]

Finally, with respect to the doctrine of exhaustion of rights, that doctrine is, in this author's opinion, the most effective basis for resolving the issue relating to the lawfulness of parallel imports of trademarked goods. The following reasons support that view.

Firstly, it may apply to the facts of any parallel import of trademarked goods case, that is to say it correctly treats the issue of the legality of such an import as an issue arising from the intrinsic conflict between the generally accepted, on an international level, principle of territoriality of trademark rights and the much discussed, also worldwide, principle of free movement of goods.

Secondly, it expresses the correct observation that the putting on the market of a trademarked good by a parallel importer does not adversely affect or is not liable to affect adversely the primary, according to various national trademark laws and the

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[274] For the nature of the principle of territoriality as a private international law rule, see typically the *Agfa* decision of the Austrian Supreme Court [OGH, 2 *IIC* 223 (1970)—*Agfa*].

[275] So also Takamatsu (1982), p. 456.

[276] Beier (1970), pp. 60–61.

TRIPs Agreement, trademark's function of guaranteeing to consumers the origin of a good. Indeed, the doctrine of exhaustion of rights entails the legality, in principle, of any parallel import, depending on the exhaustion regime adopted by the legislation or the courts of the importing country. If, exceptionally, the condition of the parallel imported goods is changed or impaired after they have been put on the market or a parallel importer/an independent reseller uses the trademark borne by his goods in a way that damages the reputation or the distinctive character of the trademark or creates a risk of such damage or constitutes an unfair exploitation of the reputation or the distinctive character of the trademark, namely if any risk of the origin function and also of the advertising function of the trademark being impaired arises, the doctrine of exhaustion of rights is not applicable.

Thirdly, it conveys the right idea that the purpose of trademark law is not to give trademark proprietors a sales monopoly for goods bearing their trademarks[277] but to facilitate commercial transactions by guaranteeing to consumers the origin of products and services.[278]

Fourthly, it allows taking account of the economic nature of the phenomenon of parallel imports.

In this regard, it is true that the doctrine of international exhaustion of trademark rights is more consistent with the origin function (or primary or essential function) of trademarks, given that for that function to be developed smoothly, it matters only whether a trademarked good has been put on the market for the first time lawfully, i.e. by the trademark proprietor or with his consent, while the place where the good has been put on the market is not of relevance.[279] On the contrary, the doctrines of national and regional exhaustion of trademark rights allow a trademark owner to control the commercialisation of goods bearing the trademark, even without there being a risk of impairment of the origin function of the trademark. Furthermore, the aforementioned doctrines may not be justified in the light of the scope of protection that the economic value of the trademark enjoys in a certain legal order, as, by contrast, it happens in the USA and in Canada, where the rationale of the principle of national exhaustion of trademark rights adopted de facto by the legislation and the courts, respectively, is to prevent potential exploitation or potential decrease of the economic value of trademarks affixed to parallel imported goods.[280]

However, in the light of the economic nature of the phenomenon of parallel imports, account must be taken of the views expressed by economic writers with respect to the impact of freedom of parallel trade on the global socioeconomic

[277] Cf. Abbott et al. (2007), p. 270; Abbott et al. (1999), p. 605; Beier (1990), p. 152; Verma (1998), p. 538.

[278] As typically noted by judge *Clauson* in the decision *Champagne Heidsieck et Cie Monopole Société Anonyme v. Buxton [1930]*, a trademark is a badge of origin, not a badge of control. Cf. Rothnie (1993), p. 19 n. 40.

[279] From German legal literature, see Beier (1970), pp. 55–58, as well as the interpretation of the Swiss trademark law by the Swiss Supreme Court in *Chanel* (Schweizerisches Bundesgericht *GRUR Int*. 1998, 520—*Chanel*).

[280] So also Peterman (1993), p. 181. For the US, see in detail *infra* Sect. 13.1.

welfare when regulating the issue of the legality of that phenomenon. Thus, on the basis that, according to economic analysis, the impact of parallel trade on the global socioeconomic welfare is dubious, it appears more appropriate for states and various unions of states to be able to recognise the exhaustion of trademark rights regime, which, in their view, promotes socioeconomic welfare in their national territory or in the geographical area consisted of the national markets of their Member States, respectively.[281] This position is confirmed by the TRIPs Agreement, which assigns to the competence of its Contracting Parties (Contracting Parties to the TRIPs Agreement) the regulation of the issue of parallel imports' legality under intellectual property law, as analysed in Part II of this book in relation to the trademark right (Article 6 of the TRIPs Agreement). Thus, even if the recognition of the principle of national or regional exhaustion of trademark rights in a certain country is not justified in the light of the legally protected functions of the trademark, it may still be acceptable as a measure that may help promote the socioeconomic welfare of that country or a geographical area to which the market of that country belongs.

Following from the above, therefore, the approach preferred by this book as the basis for resolving the problem of the legality of parallel imports of goods protected by trademark rights is the doctrine of exhaustion of rights. This position is endorsed, at least to a degree, by the exhaustion of rights provisions that are set out in the legal frameworks on trademarks or intellectual property of a large number of nations and some unions of nations.[282]

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[281] See Maskus (2000a), p. 1283. See *supra* Sect. 1.3.1.3.

[282] See collectively Appendix to this book.

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Part II
Exhaustion of Trademark Rights and Legality of Parallel Imports Under GATT/WTO Law

Chapter 2
Introduction to Part II

According to a generally accepted rule of law, national legislations and laws of (regional) unions of states must be consistent with the provisions of International Treaties/Agreements/Conventions to which the state or union of states has acceded. Based on this principle, the legal treatment of the phenomenon of parallel imports of trademarked products should be examined, first and foremost, in the light of sources of international law, independently of the issue of the direct or not effect of such sources within the legal orders of various states.

For an identification of sources of international law relating to the above-mentioned phenomenon, a criterion must be the nature of the phenomenon in question as a phenomenon touching upon both the scope of the protection of trademark rights and the regulation of international commercial transactions. Indeed, the International Trademark Treaties/Agreements/Conventions[1] do not touch on the issue of the legality of parallel imports, namely they do not oblige

[1] The following are included in International Trademark Treaties/Agreements/Conventions:

i) the Paris Convention for the Protection of Industrial Property, of 20.03.1883. With respect to trademark rights, the provisions of the aforementioned Convention refer mainly to the conditions for the registration of a sign as a trademark and the assignment of trademarks. Furthermore, the Treaty imposes an obligation for the Contracting Parties to ensure the seizure of imported counterfeit goods [see Article 9 (1)];
ii) the Madrid Agreement Concerning the International Registration of Marks, of 14.04.1891, the provisions of which deal with the issue of the registration of trademarks;
iii) the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, of 15.06.1957, the provisions of which also deal with the issue of the registration of trademarks;
iv) the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks, of 12.06.1973, the provisions of which also concern the issue of the registration of trademarks;
v) the Protocol Relating to the Madrid Agreement, of 27.06.1989, the provisions of which also concern the issue of the registration of trademarks;
vi) the Trademark Law Treaty, of 27.10.1994, the subject of which is limited to the harmonisation of national procedures for the registration of signs as trademarks; and

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their Parties to recognise a specific exhaustion doctrine in relation to trademark rights. Also, it does not follow from the interpretation of the provisions of those Treaties/Agreements/Conventions that the doctrine of national exhaustion of trademark rights or the doctrine of regional exhaustion of trademark rights or the doctrine of international exhaustion of trademark rights is more consistent with International Trademark Law. On the contrary, provisions that refer directly or indirectly to the legal treatment of the phenomenon of parallel imports are contained in the texts of International Treaties with economic dimension, namely International Agreements that do not only deal with matters of trademark law but also aim, in addition or principally, to promote trade between the Parties.

Such International Agreements are, specifically, two of the "Multilateral Trade Agreements" included in the Annexes to the Agreement Establishing the World Trade Organization (WTO Agreement), the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods ("TRIPs Agreement"), and the General Agreement on Tariffs and Trade of 1994 ("GATT 1994"), which entered into force on 01.01.1995 (date of entry into force of the Agreement Establishing the World Trade Organization).[2]

In the context of Part II of this book, the provisions of the above-mentioned Agreements relating to the issue of the legality of parallel imports will be examined in order to ascertain whether GATT/WTO Law, integral parts of which are those Agreements, obliges the Contracting Parties to the WTO Agreement, that is to say the Member States of the World Trade Organization,[3] to recognise a specific

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vii) the Singapore Treaty on the Law of Trademarks, of 27.03.2006, the content of which is restricted to provisions of a procedural nature concerning the registration and licensing of trademarks.

[2] "The most complex negotiations in world history" [in the words of the Council of the European Communities (now Council of the European Union)] ended with the signature in Marrakesh on April 15, 1994 of the Final Act embodying the results of the Uruguay Round of Multilateral Trade Negotiations. The results of the Uruguay Round were indeed impressive, both institutionally and substantively.

On an institutional level, the main achievement of the Uruguay Round was the establishment of the World Trade Organization (WTO). Since 01.01.1995 (date of entry into force of the Final Act of the Uruguay Round), the GATT evolved into a genuine international organisation, the World Trade Organization (WTO). For the transition of the General Agreement on Tariffs and Trade (GATT) to the World Trade Organization (WTO), see Demaret (1995); Gklavinis (2009), pp. 175–235; Jackson (1995); Stewart (1993, 1999).

On a substantive level, the Final Act of the Uruguay Round includes an Agreement on the Establishment of the World Trade Organization ("WTO Agreement" or "Marrakesh Agreement"), which signifies the creation of a common institutional framework for commercial relations on an international level. The Annexes to the WTO Agreement include various "Multilateral Trade Agreements", which contain substantive provisions widening the objective scope of GATT Law. Those Multilateral Trade Agreements constitute integral parts of the WTO Agreement, which does not include any substantive provisions. On the WTO Agreement, see Davey (2005) & the bibliography and journalism cited thereto (2005).

[3] Member States of the WTO are the following countries: Albania, Angola, Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Bahrain (Kingdom of), Bangladesh, Barbados, Belgium, Belize, Benin, Bolivia (Plurinational State of), Botswana, Brazil, Brunei Darussalam, Bulgaria,

exhaustion doctrine with regard to trademark rights or, in case we get a negative response to the previous question, whether a specific exhaustion doctrine with regard to trademark rights is more consistent with one of those Agreements.

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Burkina Faso, Burundi, Cambodia, Cameroon, Canada, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Congo, Costa Rica, Côte d'Ivoire, Croatia, Cuba, Cyprus, Czech Republic, Democratic Republic of the Congo, Denmark, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, European Union (formerly European Communities), Fiji, Finland, France, Gabon, The Gambia, Georgia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Hong Kong (China), Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kenya, Korea (Republic of), Kuwait (the State of), Kyrgyz Republic, Lao People's Democratic Republic, Latvia, Lesotho, Liechtenstein, Lithuania, Luxembourg, Macao (China), Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Mauritania, Mauritius, Mexico, Moldova (Republic of), Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Romania, Russian Federation, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent & the Grenadines, Samoa, Saudi Arabia (Kingdom of), Senegal, Sierra Leone, Singapore, Slovak Republic, Slovenia, Solomon Islands, South Africa, Spain, Sri Lanka, Suriname, Swaziland, Sweden, Switzerland, Chinese Taipei, Tajikistan, Tanzania, Thailand, The former Yugoslav Republic of Macedonia (FYROM), Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Uganda, Ukraine, United Arab Emirates, United Kingdom, United States of America, Uruguay, Vanuatu, Venezuela (Bolivarian Republic of), Viet Nam, Zambia, Zimbabwe.

Chapter 3
Exhaustion of Trademark Rights and Legality of Parallel Imports Under the TRIPs Agreement

3.1 General[1]

The TRIPS Agreement ("Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods") is part of the Final Act of the Uruguay Round and has been ratified both by the European Community (now European Union)[2] and its Member States, given that the European Community and its Member States were jointly competent to conclude some of the Uruguay Round Agreements, including the TRIPs Agreement.[3]

The TRIPs Agreement covers the whole scope of intellectual property, that is to say copyright and related rights, as well as industrial property. Specifically, the TRIPs Agreement comprises the Preamble and Seven Parts entitled as follows: (I) General Provisions and Basic Principles (Articles 1–8); (II) Standards Concerning the Availability, Scope and Use of Intellectual Property Rights (Articles 9–40); (III) Enforcement of Intellectual Property Rights (Articles 41–61); (IV) Acquisition and Maintenance of Intellectual Property Rights and Related Inter-Partes Procedures (Article 62); (V) Dispute Prevention and Settlement (Articles 63–64); (VI) Transitional Arrangements (Articles 65–67); (VII) Institutional Arrangements; Final Provisions (Articles 68–73).

[1] For the TRIPs Agreement in general, see Blankeney (1996), Christoforou (1995), Correa (2007), Cottier (2005), Davidson (1997), Dhanjee and Boisson de Chazournes (1990), Gervais (1998), Haas (2004), Staehelin (1999) and Stefanou (2001).

[2] See Decision of the Council of European Communities on 22.12.1994 "concerning the conclusion on behalf of the European Community, as regards matters within its competence, of the agreements reached in the Uruguay Round multilateral negotiations (1986–1994)" (OJ L 334/1 of 23.12.1994). According to Article 1, subparagraph 3 of the TEU, as replaced by the Lisbon Treaty (signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009), the European Union replaces and succeeds the European Community.

[3] See Stefanou (2001), p. 223. See also Opinion of the ECJ No. 1/94, [1994] ECR I-5267, according to which both European Community (now EU) and its Member States are empowered to conclude the TRIPs Agreement.

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According to the Preamble to the TRIPs Agreement, the key objectives of that Agreement are to reduce distortions and impediments to international trade, promote effective and adequate protection of intellectual property rights, and ensure that the measures and procedures for the enforcement of those rights do not themselves become barriers to legitimate trade. Moreover, it is acknowledged that intellectual property rights are private rights, but the objectives pursued by national legal orders for the protection of intellectual property, in which the objectives in the sectors of development and technology are included, are incorporated in the requirement for protection of public interests. Furthermore, the importance of reducing tensions by assuming stricter commitments with respect to the resolution of disputes on trade-related intellectual property rights through multilateral procedures, as well as the desire to establish a relationship of mutual support between the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), and other relevant international organisations are stressed.

The following are acknowledged as the key principles of the TRIPs Agreement:

a) the establishment of a minimum legal framework for the protection of intellectual property rights (Articles 1 (1), subparagraph 1 (1) and 1 (3) of the TRIPs Agreement)—the TRIPs Agreement is differentiated from the GATT 1994 and the GATS since beneficiaries of its protection are, in compliance with Article 1 (3), subparagraph 1 of the TRIPs Agreement, "nationals" of its Parties, both domestic and foreign.[4] The protection afforded to intellectual property rights by the Agreement is minimal (Article 1 (1) of the TRIPs Agreement), that is to say the provision of more extensive protection by the Parties is not excluded, provided that the extended protection is not contradictory to the provisions of the Agreement.
b) the principle of national treatment (Article 3 (1) of the TRIPs Agreement)—the principle of national treatment assumes in the TRIPs Agreement a wider scope against pre-existing International Treaties on industrial property rights from two points of view: firstly, the term "protection" in the TRIPs Agreement also includes the use of the rights protected by that Agreement[5]; secondly, the principle in question, interpreted in the same way as the homonymous principle in the GATT 1994 (Article III (4) of GATT 1994), refers to every de jure and de facto discrimination of a Party against nationals of other parties, in contrast to the International Treaties before the TRIPs Agreement, which limited themselves only to de jure discrimination.[6]
c) the principle of the most favoured nation treatment (Article 4 of the TRIPs Agreement)—the main consequence of the most favoured nation treatment principle, which is established for the first time in the context of an International

[4] See Gortsos and Stefanou (2005), p. 145.

[5] See Footnote (3) of the TRIPs Agreement. And in the academic writings, see Bredimas (2000), p. 53; Christoforou (1995), p. 398; Stefanou (2001), p. 204.

[6] Christoforou (1995), p. 398.

Treaty on intellectual property rights,[7] is the enforcement of equal treatment of all foreigners.[8] Exemptions from the most favoured nation treatment principle are introduced in elements (a) to (d) of Article 4 of the TRIPs Agreement.

Concluding this brief outline of the TRIPs Agreement, it is interesting to note that the following are pointed out in legal doctrine as the main advantages ensuing from the Agreement in question[9]: firstly, the participation of more countries in it compared to the Paris Convention for the Protection of Industrial Property, whose key provisions it indeed incorporates [Article 2 (1) of the TRIPs Agreement]; secondly, the enhancement of the level of industrial property rights protection, as exemplified by the establishment of precise conditions for the grant of compulsory licences in respect of patent rights (Article 31 of the TRIPs Agreements) and by the introduction of undisclosed information protection [Article 39 (1) of the TRIPs Agreement]; thirdly, the provision of specialised obligations to enforce intellectual property rights (Part III of the TRIPs Agreement); and, fourthly, the possibility of referring interstate disputes to the WTO's dispute resolution mechanism (Part V of the TRIPs Agreement).

3.2 The Exhaustion of Rights Provision of the TRIPs Agreement

3.2.1 The Discussion Regarding the Nature of the Provision of Article 6 of the TRIPs Agreement

Article 6 of the TRIPs Agreement, entitled "Exhaustion", explicitly refers to the issue of exhaustion of intellectual property rights:

> For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

From a first reading of the above provision—which refers to intellectual property rights in general and not only to the exclusive right flowing from the trademark—one may observe that its scope appears to be limited from various points of view.

Firstly, it leaves open the issue of exhaustion of intellectual property rights. The Contracting Parties to the TRIPs Agreement (hereinafter the Contracting Parties) are, in principle, free to choose between national, regional, or international exhaustion with respect to each intellectual property right (e.g., international exhaustion for trademark rights and national exhaustion for patent rights).

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[7] See Bredimas (2000), p. 54; Christoforou (1995), p. 400; Stefanou (2001), p. 204.

[8] See Fatouros and Stangos (1984), p. 34.

[9] See Gortsos and Stefanou (2005), pp. 151–152.

Secondly, it concerns only dispute settlement proceedings based on the TRIPs Agreement, namely the above provision appears to be of a procedural rather than substantive nature.

Thirdly, according to the wording of the above provision, only the provisions of the TRIPs Agreement are excluded from being used for the regulation of the issue of exhaustion of intellectual property rights.

Fourthly, on the basis of the above provision, the application of the regime of exhaustion of intellectual property rights recognised by a Contracting Party must be in compliance with the principles of national treatment and most favoured nation treatment of the TRIPs Agreement (Articles 3 and 4 of the TRIPs Agreement). However, dispute settlement proceedings that rest on the homonymous principles of GATT 1994 (Articles I and III of the GATT 1994) are not the ones "under this Agreement", according to the wording of the above provision, so that Article 6 of the TRIPs Agreement is of no relevance to the aforementioned procedures.

Up until now, there has been no decision by a TRIPs panel regarding the interpretation of Article 6 of the TRIPs Agreement. However, the scope of that Article, which is limited for the reasons outlined above, has divided legal writers with respect to the nature of its provision.

According to the approach adopted by probably most academic writers and courts,[10] the provision of Article 6 of the TRIPs Agreement must be seen as a provision of a substantive nature, namely as a provision that leaves the issue of the legality of parallel imports open and allows the Contracting Parties to adopt any exhaustion regime (through legislation or through their courts' case law) in relation to each intellectual property right after the TRIPs Agreement has come into force. On the basis of this approach, Article 6 of the TRIPs Agreement reflects, on the one hand, the failure of the Contracting Parties to reach consensus on the establishment of a common rule on exhaustion of intellectual property rights and, on the other hand, the consensus of the Contracting Parties on the exemption of the issue of the legality of parallel imports from dispute settlement proceedings under the TRIPs Agreement. Due to the consensus of the Contracting Parties on the exemption of the issue of the legality of parallel imports from the dispute settlement proceedings established in Article 64 of the TRIPs Agreement, a rule of exhaustion with respect to an intellectual property right, which would be binding on the Contracting Parties, cannot also be drawn from the substantive provisions of the Agreement in question,

[10] See from the case law OLG München *GRUR Int*. 1996, 730, 732—*GT ALL TERRA*; BGH *ZIP* 2000, 289, 291; Case E-2/97, *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*, [1997] EFTA Court Report 127, para. 29; Opinion of Advocate General Jacobs in Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799, point 54; Opinion of the ECJ No. 1/94, [1994] ECR I-5267, 5296–5297. From the legal literature see Abbott (1998), pp. 609–610; Bercovitz (1998), pp. 160–161; Bronckers (1994), p. 1268; Bronckers (1998), p. 142; Cohen Jehoram (1996), p. 284; Correa (1994), p. 330; Correa (1998), p. 230; Cottier and Stucki (1996), p. 54; Cottier (1995), p. 55; Cottier (1998), p. 2; Joller (1998), p. 758; Kroher (1997), p. 147; Kunz-Hallstein (1998), pp. 269 and 271; Kur (1994), pp. 994–995; Pacón (1995), p. 878; Soltysinski (1996), p. 319; Verma (1998), p. 535; Yusuf (1998), p. 18.

namely with respect to trademark rights, from Article 16 of the TRIPs Agreement. The Contracting Parties may recognise (through legislation or through their courts' case law) the doctrine of national exhaustion or the doctrine of regional exhaustion or the doctrine of international exhaustion in regard to each intellectual property right, provided that the application of the aforementioned doctrines does not conflict with Articles 3 and 4 of the TRIPs Agreement.

According to a different approach,[11] the provision of Article 6 of the TRIPs Agreement must be seen as a provision of a procedural nature, that is to say as a provision that simply does not allow the issue of exhaustion of intellectual property rights to be settled in the light of the general principles and substantive provisions of the TRIPs Agreement. However, in view of the procedural nature of the provision in question, an evaluation of the exhaustion of an intellectual property right regime recognised by a Contracting Party in the light of the substantive provisions, General Provisions, and Basic Principles, as well as the Preamble of the TRIPS Agreement, should not be excluded. More precisely, under this approach, it should not be excluded that, in the light of the substantive provisions, General provisions and Basic Principles, or the Preamble of the TRIPs Agreement, a certain exhaustion doctrine with respect to a specific intellectual property right is more consistent with the law relating to that Agreement. Such a doctrine would not, of course, be binding on the Contracting Parties. Consequently, individuals could not invoke it before courts of the Contracting Parties, irrespective of the question of whether the TRIPs Agreement produces direct effect within the legal order of the Contracting Parties.

As a consequence, an interpretative approach to Article 6 of the TRIPs Agreement will be attempted in order to fully investigate the issue regarding the nature of the provision enshrined in the previously mentioned Article and express a position on that issue. Specifically, according to Article 31 of the International Vienna Convention on the Law of Treaties, a literal, systemic, historical, and teleological interpretation of that Article will be attempted.[12]

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[11] See Döbler (2002), pp. 93–99; Freytag (2001), pp. 218–219; Heath (1996), pp. 1180–1181; Heath (1997), p. 629; Lee and van Lewinski (1996), p. 317; Rinnert (2000), pp. 152–155; Straus (1996a), pp. 193–194; Straus (1996b), pp. 191–192; Ullrich (1995), pp. 634–635.

[12] For the issue of the interpretation of the provisions of International Treaties, see Roukounas (1982), pp. 177–188, and the bibliography cited therein and from the more recent bibliography Linderfalk (2007).

3.2.2 Interpretative Approach to Article 6 of the TRIPs Agreement

3.2.2.1 Literal Interpretation of Article 6 of the TRIPs Agreement

The wording of Article 6 of the TRIPs Agreement and, in particular, the phrase "For the purposes of dispute settlement under this Agreement" undoubtedly support the view that the provision enshrined in that Article is of a procedural nature.[13] Indeed, it follows from the wording of Article 6 of the TRIPs Agreement that the exhaustion of trademark rights rule adopted by a Contracting Party cannot lead to a condemnation of the Party under the proceedings set forth in Article 64 of the TRIPs Agreement. This is not true only where a Contracting Party applies an exhaustion of trademark rights rule in a way contrary to the provisions of Articles 3 or 4 of the TRIPs Agreement, that is to say only where, in the application of the exhaustion of trademark rights rule adopted by a Contracting Party, a discrimination against nationals of other Contracting Parties or unequal treatment between nationals of other Contracting Parties is found.[14] A literal interpretation of Article 6 of the TRIPs Agreement speaks, therefore, without doubt, in favour of a consideration of that Article as *lex specialis* in relation to Article 64 of the TRIPs Agreement.[15]

3.2.2.2 Systemic Interpretation of Article 6 of the TRIPs Agreement

If the wording of Article 6 of the TRIPs Agreement supports a consideration of the provision of that Article as a provision of a procedural nature, the position of the Article 6 in "Part I" of the TRIPs Agreement, entitled "General Provisions and Basic Principles", indicates the opposite. In particular, it might be supported that, since Article 6 of the TRIPs Agreement was not included in "Part V" of the Agreement in question, entitled "Dispute Prevention and Settlement", the Contracting Parties wanted the provision of that Article to be a provision of a substantive nature.

It could be objected to the foregoing view, however, that the scheme of the TRIPs Agreement allows the provision of Article 6 of the TRIPs Agreement to be perceived also as a provision of a procedural nature. Specifically, an argument in favour of that provision being considered as a provision of a procedural nature can be drawn from Footnote (6) of the Agreement in question,[16] referred to in Article

[13] So also Döbler (2002), p. 94; Lee and van Lewinski (1996), p. 318; Rinnert (2000), pp. 152–153; Stucki (1997), p. 42.

[14] So also Rinnert (2000), p. 153.

[15] So also Rinnert (2000), p. 153.

[16] The text of Footnote (6) of the TRIPs Agreement is as follows: "The right in question [import of a patent protected product], as well as all other rights recognized based on the present agreement with respect to the use, sale, import or in any way movement of goods, exist with the reservation of the provisions of article 6".

28 of the same Agreement, which concerns the rights of a patent holder. Indeed, if it were to be accepted that the provision under examination is of a substantive nature, the previously mentioned Footnote would have been superfluous, since it can be already inferred from the provision under consideration that the Contracting Parties are free to choose whatever exhaustion regime regarding the exclusive right flowing from the patent they wish.[17] On the other hand, that footnote might have been interpreted as having a purely explanatory function. However, it could be objected to such a view that the fact that a substantive provision of the TRIPs Agreement refers to the issue of exhaustion of intellectual property rights allows a position on that issue to be deduced from its substantive provisions.[18]

Based on these considerations, it is true that one cannot infer a strong argument in favour of considering the provision of Article 6 of the TRIPs Agreement as a provision of a procedural nature on the basis of Footnote (6) of the TRIPs Agreement.[19] However, in this author's opinion, one can infer from the aforementioned Footnote an argument capable of rejecting the opposite argument in favour of considering the provision of Article 6 of the TRIPs Agreement as a provision of a substantive nature, which is drawn from the inclusion of that provision in "Part I" and not in "Part V" of the TRIPs Agreement.[20]

3.2.2.3 Historical Interpretation of Article 6 of the TRIPs Agreement

The legal treatment of parallel imports was one of the most debated issues during the Uruguay Round of multilateral trade negotiations. In relation to the trademark right, all three possible types of the doctrine of exhaustion of rights were proposed by the delegations of the Contracting Parties.[21] However, in order to determine the

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[17] So also Freytag (2001), p. 218.

[18] So also Freytag (2001), p. 219.

[19] So also Freytag (2001), p. 219.

[20] As *Rinnert* observes, the inclusion of Article 6 of the TRIPs Agreement in Part V of the TRIPs Agreement would be more consistent with its procedural nature (Rinnert 2000, p. 154).

[21] The principles of national and regional exhaustion of trademark rights were proposed by the USA delegation, which commented: "Trademark rights may derive from use or registration or a combination thereof. The owner of a trademark shall have the exclusive right to use that mark and to prevent others from using the same mark or a similar mark for the same or similar goods [or] services where such use would result in a likelihood of confusion. Rights shall be subject to exhaustion only in the country or customs union where granted". (Suggestion by the United States for Achieving the Negotiating Objective, GATT document MTN.GNG/NG11/W/14/Rev.1, of October 17, 1988, note 3). The principle of international exhaustion of trademark rights was proposed by the Indian delegation: "The doctrine of "Exhaustion of Rights" is linked to "parallel imports". The exhaustion of the exclusive rights of the trademark owner should not be limited to the same country or the same free trade area, but should extend globally. In others words, the principle of international exhaustion of rights should apply to trademarks". (Standards and Principles Concerning the Availability, Scope and Use of Trade-Related Intellectual Property Rights, GATT document MTN.GNG/NG11/W/37, of July 10, 1989, note 8). A number of

correct meaning of the provision of Article 6 of the TRIPs Agreement, the provisions on exhaustion of rights included in two of the Drafts of the TRIPs Agreement, namely in the “Annel Draft”[22] and in the “Brussels Draft”,[23] are very crucial.

Specifically, in a Footnote of the “Annel Draft” to which the Article concerning the right to distribute goods protected by copyright referred, the following provision was set out:

> It is understood, unless expressly provided to the contrary in this agreement, nothing in this agreement shall limit freedom of PARTIES to provide that any intellectual property rights conferred in respect of the use, sale, importation and other distribution of goods are exhausted once those goods have been put on the market by or with the consent of the right holder.

Moreover, Article 6 of the “the Brussels Draft” introduced the following provision:

> Article 6: Exhaustion[3]
>
> Subject to the provisions of Articles 3 and 4 above, nothing in this Agreement imposes any obligation on, or limits the freedom of, PARTIES with respect to the determination of their respective regimes regarding the exhaustion of any intellectual property rights conferred in respect of the use, sale, importation or other distribution of goods once those goods have been put on the market by or with the consent of the right holder.
>
> [Footnote 3]: For the purposes of exhaustion, the European Communities shall be considered a single Party.

The main difference between the exhaustion provisions of the “Annel Draft” and the “Brussels Draft”, on one hand, and the exhaustion provision of Article 6 of the TRIPs Agreement,[24] on the other hand, lies in the fact that the phrase “For the purposes of dispute settlement under this Agreement” is absent from the former.[25] This finding supports the view that the exhaustion provisions of the “Annel Draft” and the “Brussels Draft” were of a substantive nature.

However, the inclusion of a substantive provision on the exhaustion of intellectual property rights in the text of the TRIPs Agreement was not finally reached due to the complete discord between the Contracting Parties on this issue.[26] That

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developing countries also supported a regime of regional exhaustion of trademark rights, under which the proprietor of a trademark could not oppose parallel imports of goods bearing the trademark provided that the latter would have been put on the market by the trademark proprietor or with his consent inside the territory of a Contracting Party: “exhaustion if the trademarked goods or services are marketed by or with the consent of the owner in the territories of the Parties to the present Agreement”. (Communication from Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Peru, Tanzania and Uruguay, GATT document MTN.GNG/NG11/W/71, of May 14, 1990).

[22] Status of Work in the Negotiating Group, Chairman’s Report to the GNG, MTN.GNG/NG11/W/76, 23 July 1990.

[23] Document MTN.TNC/W/35/Rev. 1 of 3 December 1990.

[24] The wording of Article 6 of the TRIPs Agreement is exactly the same as the wording of Article 6 of the “Dunkel Draft” of the TRIPs Agreement [GATT Doc. MTN.TNC /W/FA (Dec. 20, 1991)].

[25] So also Döbler (2002), p. 96.

[26] Cottier and Stucki (1996), p. 53.

discord was, indeed, evident not only between industrial (or developed) and developing nations[27] but also between many industrial nations.[28] The introduction of a doctrine of international exhaustion of rights was rejected, however, by the majority of the Contracting Parties on the ground that differences were observed between nations in terms of production conditions and the implementation of competition law.[29] In particular, the majority of industrial nations raised against such a doctrine the argument that developing nations, due to their inadequacies in the organisation of the administration and in judicial channels, cannot be considered reliable enough to separate parallel imported goods from pirated and counterfeit ones.[30] Some developing nations raised the argument that the establishment of such a doctrine would lead to no licensing of intellectual property rights in their territories, where average costs of production are lower than in industrial nations.[31] On the contrary, in favour of the adoption of a doctrine of international exhaustion of rights were many developing nations, especially the hard core of developing nations,[32] which included India, Brazil, and Egypt, as well as some industrial nations, such as Australia.[33]

The disagreement among the Contracting Parties on the introduction of a doctrine of international exhaustion resulted in a general failure to reach a consensus on the inclusion of an exhaustion of rights doctrine (national, regional, or international exhaustion) in the context of the TRIPs Agreement. That failure forced the Contracting Parties to leave the issue of exhaustion of intellectual property rights unregulated, in order not to jeopardise the successful outcome of the Uruguay Round negotiations.[34] Moreover, a number of developing nations exerted pressure in order for that issue to be also exempt from the dispute settlement proceedings, which would be provided for in the TRIPs Agreement.[35] The final outcome of the admittedly difficult Uruguay Round negotiations with respect to the problem of the legality of parallel imports is reflected in the provision of Article 6 of the TRIPs Agreement.

The conclusion, therefore, that can be drawn from a historical interpretation of Article 6 of the TRIPs Agreement is that the Contracting Parties have deliberately left the issue of exhaustion of intellectual property rights unregulated; moreover, they deliberately have excluded that issue from the dispute settlement proceedings

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[27] On the conflict of interests between the Contracting Parties during the negotiations for the conclusion of the TRIPs Agreement, see Bail (1991), p. 141; Hilpert (1998).

[28] See Dhanjee and Boisson de Chazournes (1990), p. 5; Joller (1998), p. 761; Staehelin (1999), p. 58; Stucki (1997), p. 39.

[29] Staehelin (1999), p. 59.

[30] Pacón (1995), p. 878.

[31] Pacón (1995), p. 878.

[32] See Reinbothe (1991), p. 158 n. 16.

[33] Pacón (1995), p. 878.

[34] Pacón (1995), p. 878.

[35] Pacón (1995), p. 878.

laid down in Article 64 of the TRIPs Agreement. In particular, strong arguments in favour of accepting that the Contracting Parties wanted the provision of Article 6 of the TRIPs Agreement to be of a procedural rather than a substantive nature may be inferred both from the context of the Uruguay Round of multilateral trade negotiations and from a comparison of the wording of Article 6 of the TRIPs Agreement with the wording of the exhaustion provisions of the "Annel Draft" and the "Brussels Draft" of that Agreement. As it is even noted, the Contracting Parties gave a procedural rather than a substantive nature to the provision of Article 6 of the TRIPs Agreement in order to safeguard the interests of developing nations that recognise the principle of international exhaustion of rights. In particular, it has been submitted that the Contracting Parties gave a procedural rather than a substantive nature to the provision of Article 6 of the TRIPs Agreement in order to prevent a potential finding that those nations violate provisions of the TRIPs Agreement on the basis of the proceedings laid down in Article 64 of the TRIPs Agreement, which would be initiated at the request of industrial countries that, in the context of the Uruguay Round negotiations, were against the establishment of the aforementioned principle in the Agreement in question.[36]

3.2.2.4 Teleological Interpretation of Article 6 of the TRIPs Agreement

According to the Preamble to the TRIPs Agreement, amongst the priority objectives of that Agreement is to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.[37] Based on this observation, it is indeed striking that the most trade-related aspect of intellectual property rights, namely the issue of exhaustion of those rights, is not regulated but also is excluded from the dispute settlement proceedings laid down in that Agreement.

However, both the non-regulation and the exception of the issue of exhaustion of intellectual property rights from the dispute settlement proceedings laid down in the TRIPs Agreement may be explained, by means of a teleological interpretation, as components of a compromise between industrial and developing countries on an issue that could jeopardise the successful outcome of the Uruguay Round negotiations. More specifically, for the industrial nations, the majority of which were against the incorporation of a doctrine of international exhaustion of rights into the TRIPs Agreement, the benefit they obtained from the exhaustion provision that was included in that Agreement was that no obligation to recognise a regime of international or regional exhaustion of intellectual property rights results from that provision. On the other hand, for the developing nations, the majority of which were in favour of the incorporation of a doctrine of international exhaustion

[36] Kunz-Hallstein (1998), p. 269; Pacón (1995), p. 878.

[37] See recital 1 in the Preamble to the TRIPs Agreement.

of rights into the TRIPs Agreement,[38] the benefit they obtained from the exhaustion provision included in that Agreement was that no provision of the Agreement in question could ever be interpreted as basis of obligation to abandon the aforementioned doctrine.

In the light of these considerations, a teleological interpretation of Article 6 of the TRIPs Agreement also supports the view that the provision of that Article is one of a procedural rather than substantive nature. This is because, should the provision in question be accepted as being of a substantive nature, the compromise between industrial and developing countries underlying that provision is being nullified to the detriment of developing countries.

3.2.3 Remarks

It follows from a literal, systemic, historical, and teleological interpretation of the provision of Article 6 of the TRIPs Agreement that the provision is of a procedural rather than a substantive nature. In particular, that provision should be understood, in this author's view, as having the meaning that no Contracting Party is to be found, in the context of dispute settlement proceedings under the TRIPs Agreement, that it has violated that Agreement due to the exhaustion of trademark rights rule it adopts (through legislation or through its courts' case law), save if the application of such a rule has been found to be inconsistent with either Article 3 or Article 4 of the TRIPs Agreement (principle of national treatment and principle of the most favoured nation treatment, respectively). Despite the fact that no provision of the TRIPs Agreement can be used in order to establish an obligation for the Contracting Parties to recognise a specific regime regarding exhaustion of trademark rights, this nevertheless does not exclude a consideration of the substantive provisions, the General Provisions and Basic Principles, as well as the Preamble of that Agreement, in order to determine whether a certain doctrine regarding exhaustion of trademark rights is more consistent with the law relating to that Agreement.

3.3 The Substantive Trademark Provisions of the TRIPs Agreement

According to an approach suggested by an academic writer, the solution to the problem regarding the legality of parallel imports of goods protected by trademark rights may be found in the provision of Article 16 (1) of the TRIPs Agreement.[39] The aforementioned provision states:

[38] See recital 1 in the Preamble to the TRIPs Agreement.

[39] See Cottier (1995), pp. 53–56.

> 1. The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, nor shall they affect the possibility of Members making rights available on the basis of use.

According to the letter of the above provision, the assessment of the legality of parallel imports of trademarked goods is subject to the second subparagraph of that provision. This is because a parallel importer or an independent reseller of gray market goods uses a trademark that is identical to one used in the market of the importing country; in addition, both trademarks are used to distinguish identical or similar products. Based on Article 16 (1), subparagraph 2 of the TRIPs Agreement, a risk of confusion on the part of the public is presumed when trademarked goods imported in parallel are put on the market. This means that the independent trader who makes a parallel imported product available is the one bearing the burden of proving that the putting on the market of the product does not lead to the creation of such a risk.[40] However, an independent trader will have, normally, no difficulty in demonstrating that making gray market goods available does not result in the creation of a risk of confusion on the part of the public. This is because the practice of parallel imports concerns only goods that are genuine and that have been legally put on the market for the first time.[41] The presumption of Article 16 (1), subparagraph 2 of the TRIPs Agreement will not be rebutted only if the original condition of the goods imported in parallel has been affected without the authorisation of the holder of the trademark. In such a case, a risk of confusion on the part of the public could indeed arise, in the sense that the public could attribute the change in the condition of the goods in question to the trademark proprietor.

Based on these considerations, parallel imports of trademarked goods should be considered, as a rule, to be legal under Article 16 (1) of the TRIPs Agreement. As it is even noted in the context of the approach under consideration, it must be admitted that Article 16 (1) of the TRIPs Agreement provides for full harmonisation, in the sense that the Contracting Parties cannot extend the scope of trademark protection beyond the context of the provision in question. This means that the Contracting Parties cannot give absolute protection to trademark proprietors by depriving independent traders of the possibility of producing evidence to counter the presumption of Article 16 (1), subparagraph 2 of the TRIPs Agreement. In order to support the latter position, references are made to the definition of trademarks laid down in Article 15 (1), subparagraph 1 of the TRIPs Agreement and the wording of

[40] As has been noted by *Cottier*, it follows from the provision of Article 16 (1) of the TRIPs Agreement that a parallel importer or, in general, an independent trader must be able to show that the use of the trademark of his goods does not give rise to a likelihood of confusion on the part of their intended public (Cottier 1995, p. 54).

[41] See *supra* Sect. 1.1.

the Preamble to that Agreement.[42] In particular, it has been observed that it follows from the wording and the spirit of Article 15 (1), subparagraph 1 of the TRIPs Agreement, which defines trademarks in a compulsory way for the Contracting Parties, that the purpose of trademark law, on the basis of the TRIPs Agreement, does not go beyond the origin function of the trademark, namely the trademark's function of distinguishing products or services of one undertaking from those of the other ones and, in any event, does not include a right of trademark proprietors to partition national markets.[43] Moreover, it has been noted that, according to the Preamble to the TRIPs Agreement, one of its main purposes is to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.[44]

The above approach seeks to resolve the issue of the legality of parallel imports of trademarked goods on the basis of a principle generally accepted by national legislations and by the TRIPs Agreement. That principle means that the protection of the rights conferred by a trademark can be invoked to prohibit the use of an identical or similar sign by a third party normally where a likelihood of confusion exists. More specifically, the above approach excludes, in essence, the issue of the legality of parallel imports of trademarked goods from the scope of application of Article 6 of the TRIPs Agreement. This is because, although it recognises, in principle, the freedom of the Contracting Parties to adopt whichever exhaustion of trademark rights regime they wish, it nevertheless concludes that the Contracting Parties are obliged to accept the legality, in principle, of parallel imports of trademarked goods under Article 16 (1) of the TRIPs Agreement. According to the above approach, that is to say, Article 6 of the TRIPs Agreement does not appear to be crucial for the assessment of the legality of parallel imports of trademarked goods, precisely because it follows from the provision of Article 16 (1) of the TRIPs Agreement that such imports are, in principle, lawful or, in other words, that a trademark proprietor only exceptionally, namely only if the presumption of Article 16 (1), subparagraph 2 of the TRIPs Agreement cannot be rebutted, is entitled to prohibit parallel imports of goods bearing the trademark.[45]

The above approach could, indeed, be welcomed to the extent that it attempts to fill the gap left by the provision of Article 6 of the TRIPs Agreement, which, leaving aside the fact that it leaves the issue of exhaustion of trademark rights open, is, additionally, according to the view expressed in this study, of a procedural nature. However, the following objections to the approach under consideration could be raised.

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[42] Cottier (1995), pp. 54–55.

[43] According to Article 15 (1), subparagraph 1 of the TRIPs Agreement, "Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark".

[44] See recital 1 in the Preamble to the TRIPs Agreement.

[45] See Cottier (1995), pp. 55–56. So also Rinnert (2000), pp. 156–160 and 170–171, according to whom a binding doctrine of international exhaustion of trademark rights is deduced, de facto, from Article 16 of the TRIPs Agreement.

Firstly, the approach under consideration introduces, in essence, a commitment of the Contracting Parties to adopt the principle of international exhaustion in respect of trademark rights. Indeed, although the approach under consideration addresses the problem of the legality of parallel imports of trademarked goods on the basis of the rights conferred by the trademark, namely on the basis of the content of the exclusive right flowing from the trademark, it nevertheless reaches the result that Contracting Parties that allow trademark proprietors to oppose parallel imports by relying on their rights may be found, in the context of the proceedings set forth in Article 64 of the TRIPs Agreement, that they have violated provisions of that Agreement. However, such a result directly conflicts with the wording of Article 6 of the TRIPs Agreement. According to the aforementioned Article, no provision of the TRIPs Agreement—including the provision of Article 16 (1) of the Agreement in question—can be used for a binding regulation of the issue relating to the exhaustion of intellectual property rights.[46]

Secondly, the approach under consideration overlooks that the TRIPs Agreement explicitly allows the Contracting Parties to implement in their law more extensive protection for the trademark right than is required by Article 16 (1) of that Agreement [Article 1 (1) of the TRIPs Agreement]. In particular, under Article 1 (1) of the TRIPs Agreement, the Contracting Parties are free to grant trademark protection even without there being a risk of confusion on the part of the public and, therefore, are free to protect trademark proprietors against parallel imports.[47]

Thirdly, as it will be illustrated below, despite the wording of the Preamble of the TRIPs Agreement, it cannot be deduced from the context of the TRIPs Agreement negotiations that the Agreement aims primarily at trade liberalisation.[48]

The foregoing objections do not, of course, preclude the possibility of a TRIPs panel acknowledging the legality, in principle, of parallel imports of trademarked goods in the light of Article 16 (1) of the TRIPs Agreement. However, those objections seem to be sufficiently convincing, in this author's view, so that such a possibility is quite unlikely. On the contrary, what may be accepted is that the doctrine of international exhaustion of trademark rights is more in line with the provision of Article 16 (1) of the TRIPs Agreement. Indeed, as noted in Chap. 1 of this book, the doctrine of international exhaustion of rights appears to be more in harmony with the primary function of trademarks to indicate the origin of a product, since, for the aforementioned function to be developed smoothly, the place where a trademarked good has been put on the market is not of relevance.[49] On the basis of this consideration, the fact that the provision of Article 16 (1) of the TRIPs Agreement connects the protection of a trademark proprietor with the existence of a risk of confusion on the part of the public as to the origin of a good bearing the

46 Cf. Freytag (2001), p. 225; Stucki (1997), pp. 46–47.

47 Cf. Freytag (2001), pp. 225–226; Kairies (2001), p. 82.

48 See *infra* Sect. 3.5.

49 See Beier (1970), pp. 55–58, as well as the interpretation of the Swiss law on trademarks in *Chanel* (Schweizerisches Bundesgericht *GRUR Int*. 1998, 520—*Chanel*).

trademark establishes that the doctrine of international exhaustion of trademark rights is more consistent with that provision. However, the fact that the aforementioned doctrine is more consistent with Article 16 (1) of the TRIPs Agreement does not entail that the doctrine is also more consistent with the legal system created by the TRIPs Agreement in general. As already noted, the provision of Article 1 (1) of the TRIPs Agreement explicitly allows the Contracting Parties to grant trademark proprietors a wider protection than that provided for in Article 16 (1) of the TRIPs Agreement, namely, *inter alia*, protection against parallel imports.[50]

3.4 General Provisions and Basic Principles of the TRIPs Agreement

3.4.1 Articles 3 and 4 of the TRIPs Agreement

The principles of non-discrimination (the national treatment and the most favoured nation treatment) under the TRIPs Agreement are stated, as observed above, in Articles 3 and 4 of the TRIPs Agreement.

According to an opinion formulated by the Commission of the European Communities (now European Commission) in the Proposal for a European Parliament and Council Directive "approximating the legal arrangements for the protection of inventions by utility model",[51] the prohibition of international exhaustion of the rights conferred by the utility model certainly is not in conflict with the provisions in the TRIPs Agreement.[52] However, it has been suggested that the doctrines of national and regional exhaustion of rights introduce a discrimination prohibited by the Agreement in question in the sense that they favour trademark proprietors in countries of destination for parallel imported goods. Such a favour has been established in the fact that, by virtue of those doctrines, goods imported in parallel cannot be put on the market freely in the importing country unless they have been put on the market in that country or in a union of states to which that country belongs by the proprietor of the trademark borne by the goods or with his consent, contrary to goods imported via authorised distribution channels for which no such restriction exists.[53] More specifically, according to a view expressed in legal

[50] So also Freytag (2001), p. 226.

[51] OJ 1998 C 36/13.

[52] See recital 16 in the Preamble to the Proposal for a European Parliament and Council Directive "approximating the legal arrangements for the protection of inventions by utility model", according to which "whereas the Community and all Member States are bound by the Agreement on Trade-related Aspects of Intellectual Property Rights concluded under the auspices of the World Trade Organization; whereas the provisions of this Directive must be in complete harmony with those of the Paris Convention and of the above-mentioned Agreement".

[53] So, probably, Brandi-Dorhn (1994), p. 8.

doctrine, Articles 3 and 4 of the TRIPs Agreement should be interpreted as prohibiting the first of the above-mentioned doctrines (that of national exhaustion) on the ground that they do not allow a Contracting Party to grant the first sellers of a trademarked product in the market of another Contracting Party a treatment less favourable than that accorded to the first sellers of the same product in its national market. Furthermore, Articles 3 and 4 of the TRIPs Agreement should be interpreted as prohibiting the second of the above-mentioned doctrines (that of regional exhaustion) on the grounds that they do not allow a Contracting Party to grant the first sellers of a trademarked product in the market of another Contracting Party that does not belong to a specific union of states a treatment less favourable than that accorded to the first sellers of the same product in the market of that union. The less favourable treatment lies in this case in the fact that goods that are genuine and that have been legally put on the market in a foreign country (in general or in a foreign country outside a specific union of states) cannot freely be put on the domestic market, contrary to identical or similar goods from the same manufacturer that have been legally put on the domestic market or on the market of a country belonging to a specific union of states for the first time.

It is the view of this author that the foregoing approach cannot be accepted on the ground that it is objectively not possible to assess the legality of a parallel importation under Articles 3 and 4 of the TRIPs Agreement. Specifically, the foregoing approach overlooks the fact that the aforementioned Articles prohibit less favourable treatment by reference to the nationality of the holders of intellectual property rights, while the issue relating to the lawfulness of parallel imports concerns the legal treatment of non-authorised imports of goods that are genuine and that have been legally put on the market for the first time. The nationality of the holder of the intellectual property rights by which parallel imported goods are protected is of no relevance to the examination of the legality of the parallel import.[54] More specifically:

According to Article 3 (1), subparagraph 1 of the TRIPs Agreement:

> Each Member shall accord to the nationals of other Members treatment no less favourable than that it accords to its own nationals with regard to the protection of intellectual property...

It follows from the above provision that a Contracting Party is not permitted to treat nationals of other Contracting Parties differently from its own nationals or, in other words, to discriminate against nationals of other Contracting Parties. However, the doctrines of national and regional exhaustion of rights do not lead to discrimination against nationals of other Contracting Parties since they regulate, as the doctrine of international exhaustion of rights does, only the limits of the right of a trademark owner, namely the scope of protection of such a right. A trademark right being subject to a national or regional exhaustion regime does not prevent nationals of other Contracting Parties from acquiring trademark rights in a certain

[54] So also Freytag (2001), p. 229.

Contracting Party. A trademark right being subject to a national or regional exhaustion regime can be relied on, that is to say, to block a parallel importation, irrespective of the nationality of the trademark proprietor. Thus, an issue regarding the compatibility of the doctrines of national exhaustion of trademark rights and regional exhaustion of trademark rights with Article 3 of the TRIPs Agreement cannot, in reality, arise.[55]

Furthermore, according to Article 4, Section 1 of the TRIPs Agreement:

> With regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members.

It follows from the above provision that a Contracting Party is obliged to treat nationals of other Contracting Parties equally. The fact that the doctrines of national and international exhaustion of rights do not mean that a Contracting Party treats nationals of other Contracting Parties unequally is rather self-evident. On the contrary, what is not self-evident is the compatibility of the doctrine of regional exhaustion of rights with the above provision. However, it must be pointed out that the application of the aforementioned doctrine is also connected with the place of the first putting on the market of goods imported in parallel and not with the nationality of the proprietor of the trademark affixed to the goods. Thus, by virtue of that doctrine, parallel trade of trademarked goods between national markets of a union of nations is lawful regardless of whether or not the parallel importer is a national of a Member State of the union. In the light of the principle of regional exhaustion of rights, that is to say, no privileges are extended to nationals of other Contracting Parties, but merely goods originating in certain Contracting Parties are treated more favourably than goods originating in other Contracting Parties. Based on these observations, no issue regarding the compatibility of the regime of regional exhaustion of trademark rights with Article 4, subparagraph 1 of the TRIPs Agreement arises.[56]

In the light of these considerations, it is appropriate to accept that the doctrines of national and regional exhaustion of trademark rights are compatible with the provisions of Articles 3 (1), subparagraphs 1 and 4, subparagraph 1 of the TRIPs Agreement. Articles 3 and 4 of the TRIPs Agreement prohibit discrimination based on the nationality of trademark proprietors, while the problem of the legality of parallel imports is linked rather to the geographical origin of goods imported in parallel.

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[55] So also Freytag (2001), p. 229 and probably Cottier (1998), p. 2.

[56] So also Freytag (2001), p. 229. In any case, however, the lawfulness of a regime of regional exhaustion of trademark rights that came into force prior to the entry into force of the WTO Agreement results also from the provision of Article 4 (d) of the TRIPs Agreement, according to which: "deriving from international agreements related to the protection of intellectual property which entered into force prior to the entry into force of the WTO Agreement, provided that such agreements are notified to the Council for TRIPS and do not constitute an arbitrary or unjustifiable discrimination against nationals of other Members".

3.4.2 Article 7 of the TRIPs Agreement

Article 7 of the TRIPs Agreement articulates the objectives of that Agreement:

> The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.

That Article appears to concern all the intellectual property rights, including the trademark right. In reality, however, that Article only refers to intellectual property rights which contribute to promote technological innovation.[57] As has been correctly noted, the exclusive right flowing from the trademark is not among the aforementioned rights. On the contrary, the protection and enforcement of trademark rights primarily contributes to the reduction of consumers' costs in searching products and services.[58] Thus, it is the view of this author that the provision of Article 7 of the TRIPs Agreement does not appear to be crucial for the assessment of the legality of parallel imports of trademarked goods under the TRIPs Agreement.

3.5 Preamble to the TRIPS Agreement and Preparatory Work Related to the TRIPs Agreement

In view of the fact that the substantive provisions as well as the General Provisions and Basic Principles of the TRIPs Agreement do not favour the position that a certain doctrine of exhaustion of trademark rights is more consistent with the law relating to that Agreement, what must be now examined is whether one of the three types of the doctrine of exhaustion of trademark rights is, in the light of the Preamble to the TRIPs Agreement and preparatory work related to that Agreement, more compatible with the purpose of that Agreement.

According to the recital 1 in the Preamble to the TRIPs Agreement:

> [The Members] *Desiring* to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;

It follows from the wording of the above passage that the purpose of the TRIPs Agreement includes both the reduction of distortions and impediments to international trade, as well as the promotion of an effective and adequate protection of intellectual property rights. "Distortions" and "impediments to international trade" should probably be understood to mean international trade restrictive measures that

[57] See Pires De Carvalho (2009), p. 169.

[58] See Pires De Carvalho (2009), p. 169.

are caused by differences in national legal systems.[59] However, the wording of the above passage creates the impression that the reduction of distortions and impediments to international trade is put by the authors of the Agreement in question before the need to promote the effective and adequate protection of intellectual property rights.[60] Indeed, the effective and adequate protection of the aforementioned rights appears to just be taken into account by the Contracting Parties (: *taking into account...*) in satisfying an overriding requirement, namely the reduction of distortions and impediments to international trade.

In the light of the foregoing considerations, the doctrines of national and regional exhaustion of trademark rights, which allow trademark proprietors to partition the markets between the Contracting Parties by prohibiting parallel trade, do not appear to be consistent with the purpose of the TRIPs Agreement and, indeed, irrespective of whether the adoption of those doctrines is prompted by the scope of protection that the economic value of a trademark enjoys in a certain legal order or by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from abroad. In particular, if the adoption of those principles is prompted by protectionist considerations in favour of domestic undertakings/industry and against intra-brand competition from abroad, they seem to directly conflict with the objective of the TRIPs Agreement to reduce international trade restrictive measures. But also in the case where the adoption of those principles is prompted by the scope of protection that the economic value of the trademark enjoys in a certain legal order (protection of the economic value of trademarks affixed to parallel imported goods against potential exploitation or potential decrease), those doctrines do not appear to be consistent with the purpose of the TRIPs Agreement because, according to the wording of the Preamble to the Agreement in question, the limitation of international trade restrictive measures appears to be put before the requirement for promotion of the protection of intellectual property rights.

However, the foregoing approach is not consistent with the broad assumption that the conclusion of the TRIPs Agreement was primarily intended to bridge the gap between developing and developed nations in the field of the protection and the enforcement of intellectual property rights. In particular, as follows from the negotiations that led to the conclusion of that Agreement, the latter imposes on developing countries an obligation to adopt a minimum level of protection and enforcement of intellectual property rights in exchange for the transfer of technology to those countries and direct foreign investment into their territories.[61] In this regard, it has been noted that the majority of the Contracting Parties to the WTO

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[59] Cf. also recital 2 (c) in the Preamble to the TRIPs Agreement, where the Contracting Parties note the need to provide "effective and appropriate means for the enforcement of trade-related intellectual property rights, *taking into account differences in national legal systems*". (emphasis added).

[60] So also Bourgeois (1995), p. 777.

[61] See Cottier (2005), pp. 1044–1045.

Agreement conceive the TRIPs Agreement to be predominantly, if not exclusively, for the benefit of developed (or industrialised) countries, as it regulates essential conditions of competition between them in the markets of developing countries.[62] On the contrary, it does not follow from the above-mentioned negotiations that the TRIPs Agreement gives precedence to the requirement for trade liberalisation over the requirement for an effective and adequate protection of intellectual property rights. At this point, it should be underlined that the improvement of protection and enforcement of intellectual property rights in developing countries is expected to raise new obstacles for world trade, given that the TRIPs Agreement does not affect the territorial nature of the rights in question.[63] Indeed, according to some academic legal writers, the negotiations for the TRIPs Agreement, in contrast to the negotiations for the other Uruguay Round agreements, were not aimed at all at trade liberalisation but were exclusively aimed at the amendment of national legal frameworks[64]; for this reason, the TRIPs Agreement should not have been part of the Agreement establishing the World Trade Organization (WTO Agreement).[65]

In conclusion, the position that the doctrine of international exhaustion of trademark rights is more consistent with the purpose of the TRIPs Agreement does not appear to be correct. The wording of the Preamble to the aforementioned Agreement indeed creates the impression that the requirement for trade liberalisation takes precedence over the requirement for an adequate and effective protection of intellectual property rights. However, the claim that the TRIPs Agreement primarily aims at trade liberalisation has no basis in the context of the TRIPs Agreement negotiations. Thus, it cannot be accepted, in this author's opinion, that the freedom of parallel trade is more consistent with the purpose of the Agreement in question.[66]

3.6 Concluding Remarks

Article 6 of the TRIPs Agreement leaves the issue of exhaustion of trademark rights unregulated; in addition, it does not allow a binding on the Contracting Parties exhaustion of trademark rights rule to be established in the substantive trademark provisions or the General Provisions and Basic Principles of that Agreement.

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[62] See Cottier (2005), p. 1045.

[63] The fact that intellectual property rights may function as barriers to international trade has been recognised by the Contracting Parties already under the GATT 1947. Cf. Article XX (d) of the GATT 1947 (now Article XX (d) of the GATT 1994).

[64] See Hoekman and Kostecki (2001), p. 284 ("in contrast to the rest of the Uruguay Round, the TRIPs negotiations were not about freeing trade, but about changing domestic regulatory and legal regimes").

[65] See Bhagwat and Panagariya (2003).

[66] *Contra* Freytag (2001), p. 231, who reaches the conclusion that the principle of national exhaustion of trademark and patent rights is not consistent with the spirit of the TRIPs Agreement.

The regime of exhaustion of trademark rights recognised (through legislation or through the courts' case law) by a Contracting Party cannot lead to a finding against that Party in the context of dispute settlement proceedings under the TRIPs Agreement, save if in the application of the regime in question a violation of Articles 3 or 4 of that Agreement is found. In view of the fact that Article 6 of the TRIPs Agreement contains a provision of a procedural nature, it is possible to evaluate the exhaustion of trademark rights regime recognised by a Contracting Party in the light of the substantive provisions, General Provisions and Basic Principles, as well as the Preamble of that Agreement. However, it does not follow from an interpretative approach to Articles 16, 3, and 4 of the TRIPs Agreement that the doctrine of international exhaustion of trademark rights or the doctrine of regional exhaustion of trademark rights or the doctrine of national exhaustion of trademark rights is more compatible with that Agreement. More specifically, the doctrine of international exhaustion of rights is more consistent with the protection that a trademark proprietor enjoys under Article 16 (1) of the TRIPs Agreement. However, the aforementioned protection may be extended by the Contracting Parties [Article 1 (1) of the TRIPs Agreement]. Furthermore, Articles 3 and 4 of the TRIPs Agreement ("national treatment" principle and "most favoured nation treatment" principle, respectively) prohibit discrimination based on the nationality of trademark proprietors, while the problem of the legality of parallel imports is linked rather to the geographical origin of goods imported in parallel. Finally, despite the fact that recital 1 in the Preamble to the TRIPs Agreement indeed creates the impression that the doctrine of international exhaustion of the rights conferred by the trademark is more consistent with the purpose of the aforementioned Agreement, nevertheless such a position seems problematic in the light of the context of the TRIPs Agreement negotiations. This is because it follows from the aforementioned context that the TRIPs Agreement aims rather at setting a minimum level of protection and enforcement of intellectual property rights for developed and developing nations than at world trade liberalisation.

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Chapter 4
Exhaustion of Trademark Rights and Legality of Parallel Imports Under the GATT 1994

4.1 General[1]

According to the Preamble to the GATT 1994, the aim of the multilateral system for international trade in goods is to provide to the industrial and other undertakings of the Parties a safe, stable, and predictable environment in which they may trade among themselves in conditions of fair competition. This open and free trade system is anticipated to promote, through the increase of international trade, the expansion of investments, production, and employment opportunities and, subsequently, facilitate the economic development of all nations.

For the attainment of a "safe, stable and predictable environment" in which the industrial and other undertakings of the Parties may trade among themselves in conditions of fair competition, the GATT 1994 lays down the following principles:

a) The principle of the General Elimination of Quantitative Restrictions and Equivalent Measures (Article XI of the GATT 1994): pursuant to Article XI (1) of the GATT 1994, "no prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party". The protection of domestic competition may be implemented exclusively by imposing tariffs, in respect of which it is provided that the Contracting Parties may decrease or eliminate them through negotiations and also that the Contracting Parties undertake not to increase them [Articles XXVIII bis & II (1) (b) of the GATT 1994]. An important exception to the above-mentioned principle is introduced in Articles XII and XVIII of the

[1] For the General Agreement on Tariffs and Trade of 1994 (GATT 1994, ex GATT 1947) in general, see Bhala (2005), Dam (1970), Jackson (1969), Kennedy (2005) and Mavroidis (2005).

L.G. Grigoriadis, *Trade Marks and Free Trade*, DOI 10.1007/978-3-319-04795-9_4,

GATT 1994, which allow Parties to restrict imports in order to safeguard their external financial position and their balance of payments.

b) The principle of the most-favoured-nation treatment—“MFN” (Article I of the GATT 1994): the principle of the most-favoured-nation treatment aims to eliminate discrimination in trade between Parties. According to that principle, a Party that grants any advantage, favour, privilege, or immunity to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties. The scope of application of the principle of the most favoured nation covers customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, the method of levying such duties and charges, and, with respect to all rules and formalities, in connection with importation and exportation and all matters referred to in paragraphs 2 and 4 of Article III of the GATT 1994 [Article I (1) of the GATT 1994]. An important exception to the rule of the most favoured nation is introduced by the establishment of the admissibility of the so-called regional economic unions (Article XXIV of the GATT 1994), namely the customs unions and free trade areas (Article XXIV (8) of the GATT 1994), provided that some conditions aiming to safeguard the interests of the other Parties are fulfilled [Article XXIV (5) of the GATT 1994].
c) The principle of the National Treatment on Internal Taxation and Regulation—“NT” (Article III of the GATT 1994): in the light of the national treatment principle, which operates in a complementary manner to the principle of the most favoured nation, a product imported from a Party that has passed the borders of another Party and for which the duties and other charges have been paid must not be treated less favourably than an identical product from domestic production.

The above principles could be seen as individual aspects of the principle of the free movement of goods. However, as regards the discourse on the legality of parallel trade of trademarked goods, particularly important are, as will be demonstrated later in the present chapter, the provisions of Articles XI (1), III (4), and XX (d) of the GATT 1994.

4.2 Parallel Application of the TRIPs Agreement and the GATT 1994

The non-regulation of the issue regarding the exhaustion of intellectual property rights in the context of the TRIPs Agreement raised the question whether the provision of Article 6 of that Agreement constitutes in essence a provision that implies that the problem of the legality of parallel imports should be addressed under the GATT 1994.[2] That question is part of a wider reflection on whether the TRIPs Agreement constitutes an exclusive legal framework, namely a *lex specialis*, with respect to issues related to the protection of intellectual property rights so that the use of provisions of the GATT 1994 to regulate issues left open by the TRIPs Agreement is no longer possible. Both views have been supported in legal literature.

According to most academic legal writers,[3] the GATT 1994 may apply in parallel with the TRIPs Agreement when examining the above-mentioned issue under GATT/WTO Law. Article 6 of the TRIPs Agreement precludes a mandatory regulation of the issue in question only under the provisions of the TRIPs Agreement but not under the provisions of other multilateral agreements, such as the GATT 1994. Besides, the problem of the legality of parallel imports is connected rather with the geographical origin of parallel imported goods than with the nationality of the proprietor of the intellectual property right by which such goods are protected in the importing country. Thus, the GATT 1994 constitutes a more suitable legal framework for the resolution of the issue in question, compared with the TRIPs Agreement. Finally, the Preamble to the TRIPs Agreement itself refers to the GATT 1994.

According to a rather isolated view,[4] a mandatory regulation of the above-mentioned issue under the GATT 1994 is not possible. The TRIPs Agreement constitutes a legal system that balances two requirements, trade liberalisation and enhanced intellectual property protection. Based on this assumption, a mandatory regulation of issues related to the protection of intellectual property rights that have been left open by the TRIPs Agreement, like the issue of exhaustion of intellectual property rights, cannot be admitted. This is because, if one were to revert back to the GATT 1994 to resolve issues concerning the protection of intellectual property, one would focus on trade liberalisation and miss the other side of the equation that the authors of the TRIPs Agreement addressed.

The first of the foregoing views should be preferred. The fact that Article 6 of the TRIPs Agreement leaves the issue of exhaustion of intellectual property rights open and does not introduce a binding on the Contracting Parties doctrine of exhaustion of rights does not preclude a parallel application of the TRIPs Agreement and the GATT 1994. On the contrary, Article 6 of the TRIPs Agreement forces one, when interpreting provisions of the GATT 1994 relevant to the legality of parallel imports, to take account of the consensus of the Contracting Parties to the WTO Agreement on leaving the issue of exhaustion of intellectual property rights unregulated.[5] Besides, the possibility of the TRIPs Agreement being applied in parallel with the GATT 1994 appears to be favoured both by the text of the WTO

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[2] See Stucki (1997), p. 48.

[3] See Cottier and Stucki (1996), p. 54; Freytag (2001), p. 241; Stucki (1997), p. 53; Verma (1998), pp. 553–558.

[4] See Bronckers (1998), pp. 143–154.

[5] So also Freytag (2001), p. 239.

Agreement and decisions of the WTO Appellate Body. More specifically, an argument in favour of the parallel application of the TRIPs Agreement and the GATT 1994 may be derived from the provision of Article XVI (3) of the WTO Agreement, according to which "In the event of a conflict between a provision of this Agreement and a provision of any of the Multilateral Trade Agreements, the provision of this Agreement shall prevail to the extent of the conflict". The aforementioned provision, indeed, provides an argument in support of the parallel application of the individual agreements annexed to the WTO Agreement, since it regulates the issue relating to conflicts between provisions of the WTO Agreement and provisions of the aforementioned agreements.[6] In addition, it is submitted that the Appellate Body of the WTO has already accepted that the GATT 1994 applies in parallel with the GATS[7] and the Multilateral Trade Agreements in Annex 1A to the WTO Agreement.[8] Finally, it is noted that a reason to accept that the TRIPs Agreement and the GATT 1994 apply in parallel lies also, as has been correctly remarked, in the fact that the principles of national treatment and of most favoured nation laid down in the TRIPs Agreement do not correspond with the homonymous principles laid down in the GATT 1994. In particular, the principles of national treatment and of most favoured nation laid down in the TRIPs Agreement prohibit discrimination based on the nationality of the holder of the intellectual property right by which parallel imported goods are protected, while the homonymous principles laid down in the GATT 1994 prohibit discrimination based on the geographical origin of parallel imported goods. Thus, in order to achieve a comprehensive ban on discrimination within the geographical scope of the WTO Agreement, a parallel application of national treatment and most-favoured-nation treatment principles of the TRIPs Agreement and of the GATT 1994 is necessary.[9]

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[6] So also Freytag (2001), pp. 240–241.

[7] See Report of the Appellate Body, *Canada—Certain Measures Concerning Periodicals*, WT/DS31/AB/R (19×97), Chapter IV, 17–20; Report of the Panel, *Indonesia—Certain Measures Affecting the Automobile Industry*, WT/DS54/R, WT/DS55/R, WT DS59/R, and WT/DS 64/R (1998), at 342, para. 14.56, where it is noted: "We consider rather that the obligations contained in the WTO Agreement are generally cumulative, can be complied with simultaneously and that different aspects and sometimes the same aspect of a legislative act can be subject to various provisions of the WTO Agreement"; Report of the Appellate Body, *European Communities—Regime for the Importation, Sale and Distribution of Bananas*, WT/DS27/AB/R (1997), paras 217–222; Report of the Appellate Body, *Brazil—Measures Affecting Desiccated Coconut*, WT/DS22/AB/R (1997); WTO Appellate Body of 25.09.1997, *European Communities—Sale and Distribution of Bananas* (WT/DS27/AB/R), at 89, para. 221; WTO Appellate Body of 21.02.1997, *Brazil—Measures Affecting Desiccated Coconut* (AB-1996-4), at 12–13.

[8] See Report of the WTO Panel, *EC—Measures Concerning Meat and Meat Products* (*Hormones*), WT/DS26/R/USA, WT/DS48/R/CAN (1997), at 196–197, paras 8.27–8.31; Report of the Appellate Body, *EC—Measures Concerning Meat and Meat Products* (*Hormones*), WT/DS26/AB/R, WT/DS48/AB/R (1998), 46–48, paras 126–128; Report of the Appellate Body, *European Communities—Measures Affecting Asbestos and Asbestos-Containing Products*, WT/DS135/AB/R (2001), at 29, paras. 75–76.

[9] So also Freytag (2001), p. 239. Besides, the Preamble to the TRIPs Agreement also speaks in favour of the parallel application of the principles of national treatment and the most favoured nation of the TRIPs Agreement and the GATT 1994

On the basis of the foregoing, therefore, it should be accepted that the TRIPs Agreement and the GATT 1994 may apply in parallel. In view of this position, what must follow is the examination of the provisions of the GATT 1994 relating to the issue of the legality of parallel imports in order to ascertain whether the aforementioned Agreement obliges the Contracting Parties to recognise a specific exhaustion of trademark rights rule or, alternatively, whether a specific exhaustion of trademark rights rule is more consistent with the law relating to the Agreement in question.

4.3 Assessment of the Legality of Parallel Imports Under the GATT 1994

4.3.1 Article XI of the GATT 1994

A prohibition of parallel imports by virtue of a regime of national or regional exhaustion of rights constitutes, as a non-tariff barrier, a quantitative restriction to international trade within the meaning of Article XI (1) of the GATT 1994.[10] The aforementioned provision prohibits quantitative restrictions and measures having equivalent effect that impede the free movement of goods between the Contracting Parties:

> 1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Viewing the doctrines of national and regional exhaustion of rights as measures having equivalent effect to quantitative restrictions is confirmed by the provision of Article XX (d) of the GATT 1994. The latter provision introduces an exception to all obligations stemming from the GATT 1944, including, of course, also the provision of Article XI (1) of the GATT 1994.[11] As it has been rightly pointed out, if it were to be accepted that reliance on the rights conferred by a trademark in order to prohibit a parallel importation does not fall under Article XI (1) of the

(RECOGNIZING, to this end, the need for new rules and disciplines concerning: (a) the applicability of the basic principles of GATT 1994 and of relevant international intellectual property agreements or conventions. . .).

[10] So also Freytag (2001), pp. 241–242; Perrott (1988), p. 55; Stucki (1997), p. 49.

[11] See, under the GATT 1947, Jackson (1969), p. 743. Cf. also Case C-70/87, *Fediol versus Commission*, [1989] ECR 1781, para. 37; Report of the Panel adopted on 7 February 1984 (L/5504–30S/140), *Canada—Administration of the Foreign Investment Review Act*, at 16, para. 5.20; Report by the Panel adopted on 7 November 1989 (L/6439–36S/345), *United States—Section 337 of the Tariff Act of 1930*, at 44, paras 5.22–5.24.

GATT 1994, a specific exemption in regard to the possibility of blocking imports by reference to domestic intellectual property provisions by Article XX (d) of the GATT 1994 would be unnecessary.[12]

According to Article XI (2) of the GATT 1994, the prohibition of quantitative restrictions and measures having equivalent effect is subject to certain exceptions concerning the trade of certain product categories.[13] However, no exception concerning parallel imports is provided for in Article XI (2) of the GATT 1994.

In the light of the foregoing, the exercise of the exclusive right flowing from the trademark to exclude parallel trade, by virtue of a regime of national or regional exhaustion of that right, is in principle prohibited by the GATT 1994 and, in particular, is prohibited by Article XI of the previously mentioned Agreement.

4.3.2 Article XIX of the GATT 1994

Article XIX of the GATT 1994, entitled "Emergency Action on Imports of Particular Products", may, in exceptional circumstances, justify a prohibition of parallel imports with respect to a certain product. In particular, a Contracting Party may, under Article XIX of the GATT 1994, give trademark proprietors the chance to oppose parallel imports with regard to any product being imported into the territory of that Contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products (Article XIX (1) of the GATT 1994).[14]

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[12] See, under the GATT 1947, Litpher (1997), p. 249; Perrott (1988), p. 55.

[13] Those exceptions are partly reproduced in the Uruguay Round Agreement on Agriculture (of April 15, 1994).

[14] The text of the provision of Article XIX (1) of the GATT 1994 reads as follows:

> 1. (*a*) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.(*b*) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in subparagraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

The fact that the provision of Article XIX (1) of the GATT 1994 is a wholly exceptional provision is confirmed by Article 4 of the Multilateral Agreement "on safeguards" (of April 15, 1994), where the concepts of "serious injury" and "threat of serious injury" are defined,[15] as well as by Article 7 of the previously mentioned Agreement, from which it follows that prohibitions on parallel imports under Article XIX (1) of the GATT 1994 can only be of a temporary nature.[16]

Provided that the conditions of Article XIX (1) of the GATT 1994 are met, it is permitted, therefore, by derogation from Article XI of the GATT 1994, to preclude parallel imports of a certain product until those conditions no longer exist. However, a permanent prohibition on parallel imports of any product by virtue of the principle of national exhaustion of trademark rights or the principle of regional exhaustion of trademark rights cannot be justified on the basis of the provision under consideration.[17] On the basis of Article XIX (1) of the GATT 1994, only a temporary prohibition on parallel imports may be justified and this only with respect to a specific product. Article XIX of the GATT 1994 cannot, therefore, provide the foundation for the foregoing principles to be regarded as compatible with the GATT 1994.

4.3.3 Article III (4) of the GATT 1994

According to a view expressed in legal literature, the doctrine of national exhaustion of rights is inherently discriminatory and, consequently, inconsistent with the national treatment principle laid down in Article III (4) of the GATT 1994.[18] More

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Procedural conditions for the application of Article XIX (1) of the GATT 1994 are set out in paragraphs 2 and 3 of Article XIX of the GATT 1994.

[15] According to Article 4 (1) of the Uruguay Round Agreement on Safeguards:

> 1. For the purposes of this Agreement:(a) "serious injury" shall be understood to mean a significant overall impairment in the position of a domestic industry;(b) "threat of serious injury" shall be understood to mean serious injury that is clearly imminent, in accordance with the provisions of paragraph 2. A determination of the existence of a threat of serious injury shall be based on facts and not merely on allegation, conjecture or remote possibility; and (c) in determining injury or threat thereof, a "domestic industry" shall be understood to mean the producers as a whole of the like or directly competitive products operating within the territory of a Member, or those whose collective output of the like or directly competitive products constitutes a major proportion of the total domestic production of those products.

[16] According to 7 (1) of the Uruguay Round Agreement on Safeguards:

> A Member shall apply safeguard measures only for such period of time as may be necessary to prevent or remedy serious injury and to facilitate adjustment. The period shall not exceed four years, unless it is extended under paragraph 2.

[17] So also Freytag (2001), p. 242; Verma (1998), p. 554.

[18] Verma (1998), pp. 553–554; Yusuf and Moncayo von Hase (1992), p. 128.

specifically, it has been noted that the aforementioned doctrine permits the proprietor of a trademark to block imports of goods that bear the trademark and that have been put on the market in a Contracting Party other than the importing Contracting Party by him or with his consent, whereas the proprietor is not entitled to control subsequent distribution of goods that bear the trademark and that have been put on the market domestically by him or with his consent. Based on this observation, it has been further noted that, by virtue of the above-mentioned doctrine, the proprietor of a trademark is allowed to exercise his right twice with respect to trademarked goods that have not been put on the market domestically, namely in the Contracting Party where the goods have been put on the market, as well as in the importing Contracting Party, whereas he is allowed to exercise his right only once with respect to trademarked goods that have been put on the market domestically. However, such a result conflicts with Article III (4) of the GATT 1994, according to which:

> The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

The foregoing view could also cover the doctrine of regional exhaustion of rights in the sense that the aforementioned doctrine discriminates against trademarked goods put on the market outside a union of states. Indeed, by virtue of the aforementioned doctrine, the proprietor of a trademark is allowed to exercise his right twice with respect to trademarked goods that have not been put on the market in a specific union of states, namely in the Contracting Party-non-Member State of the specific union of states where the goods have been put on the market, as well as in the importing Contracting Party, whereas he is allowed to exercise his right only once with respect to trademarked goods that have been put on the market in the specific union of states.

It might be objected to the foregoing approach that the doctrine of national exhaustion of rights and the doctrine of regional exhaustion of rights are applicable to all goods, irrespective of whether they have been produced domestically or have been imported.[19] However, such an objection is only strictly true, given that a prohibition on the use of a trademark under those doctrines always concerns imported goods. Indeed, the application of those doctrines entails a de facto unequal treatment between goods produced and goods not produced inside a specific country or a specific union of countries.[20] Based on this observation, prohibitions on parallel imports of trademarked goods under the above-mentioned doctrines do not comply with the provision of Article III (4) of the GATT 1994.[21]

[19] So also Bale (1998), pp. 650–651.

[20] So also Freytag (2001), p. 246.

[21] So also Freytag (2001), p. 246; Stucki (1997), p. 49.

4.3.4 *Article XX (d) of the GATT 1994*

As accepted above, a prohibition of parallel imports by virtue of a doctrine of national exhaustion of trademark rights or a doctrine of regional exhaustion of trademark rights constitutes a measure having an equivalent effect to that of quantitative restrictions, which conflicts, in principle, with the GATT 1994 on the basis of Articles XI (1) and III (4) of the GATT 1994. However, prohibitions on parallel imports by virtue of those doctrines, which are not consistent, in principle, with the GATT 1994, could possibly be justified on the basis of the provision of Article XX (d) of the Agreement in question. The aforementioned provision, by introducing an exception from every obligation resulted from the GATT 1994,[22] permits a Contracting Party to take import-restrictive measures for the purposes of industrial property and copyright protection and of the prevention of deceptive practices on the condition that the previously mentioned measures are not applied in a manner that would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail or a disguised restriction on international trade:

> Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:
>
> (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of patents, trademarks and copyrights, and the prevention of deceptive practices.

According to the above provision, for the recognition of the principle of national exhaustion of rights or the principle of regional exhaustion of rights by a Contracting Party (through legislation or through the case law of its courts) to be compatible with Article XX (d) of the GATT 1994, the following conditions must be met.[23]

Firstly, the above-mentioned recognition must not constitute a means of arbitrary or unjustifiable discrimination between Contracting Parties where the same conditions prevail. The term “conditions” in the text of Article XX (d) of the GATT 1994 may be considered to refer to either the legal frameworks for trademark protection or the economic performances of the Contracting Parties.[24] On the basis of the first version, the adoption of the principles of national and regional

[22] See *supra* n. 11.

[23] It is interesting to mention that the exemptions provided for in Articles XX and XXI of the GATT 1947 (now Articles XX and XXI of the GATT 1994) have been considered as being “the most troublesome GATT exemptions” and the “most troublesome administrative barriers to trade” (see Jackson 1969, p. 741). In this regard, it has been submitted that the exemptions provided for in Article XX of the GATT 1947 (now Article XX of the GATT 1994) had been abused for protectionist purposes (see Senti 1986, p. 274).

[24] So also Freytag (2001), p. 243.

exhaustion of rights cannot be justified by reference to the provision of Article XX (d) of the GATT 1994. This is because, after the provisions of the TRIPs Agreement have been transposed into the laws of the Contracting Parties, an approximation of the Contracting Parties' frameworks for trademark protection has been achieved.[25] On the basis of the second version, prohibitions on parallel imports by virtue of the principle of national exhaustion of rights can be justified, normally, by reference to the provision of Article XX (d) of the GATT 1994, given that it is unlikely for the economic performances of the Contracting Parties not to differ, even a little.[26] If, however, it is unlikely for the economic performances of the Contracting Parties not to differ, it cannot be excluded that they are comparable, namely that they are not substantially different from each other. Based on this note, the provision under consideration might serve as a basis for the adoption of the doctrine of regional exhaustion of rights by Member States of customs unions or free trade areas, in view of the fact that the degree of economic integration pursued by the aforementioned unions of nations implies convergence between the economic performances of their Member States. However, such an assumption conflicts with the experience itself of those unions of nations. Thus, for example, the economic performance indicators of the USA and of Mexico, despite the fact that the aforementioned countries are members of the same free trade area (NAFTA), are far from being regarded as convergent. But also in the framework of the European Union, a customs union, the convergence of the economic performance indicators of its Member States is far from the norm. On the other hand, if the term "conditions" of Article XX (d) of the GATT 1994 is to be understood as meaning "similar or comparable economic performances", parallel imports between certain Member States of the European Union and the USA or Japan could not be prohibited in view of the fact that the economic performance indexes of the previously mentioned countries converge. Thus, the legitimacy of the principle of regional exhaustion of rights under the GATT 1994 cannot be established in Article XX (d) of the previously mentioned Agreement.[27]

Secondly, the above-mentioned recognition must not constitute a disguised restriction on international trade. In this regard, it has been argued that the doctrines of national exhaustion of rights and regional exhaustion of rights constitute per se disguised restrictions on international trade in the light of the TRIPs Agreement, which guarantees a minimum level of intellectual property protection in each of the Member States of the WTO.[28] Such a view cannot be fully accepted with respect to the trademark right, given that the national or regional exhaustion of that right may

[25] So also Freytag (2001), p. 243. It is to be reminded that the Contracting Parties may implement in their law more extensive protection than is required by the TRIPs Agreement, provided that such protection does not contravene the provisions of that Agreement [Article 1 (1) of the TRIPs Agreement.

[26] So also Freytag (2001), p. 243.

[27] So also Freytag (2001), pp. 243–244.

[28] Verma (1998), p. 555. This view was supported, under the GATT 1947, also by Yusuf and Moncayo von Hase (1992), pp. 127–129.

be justified by the scope of protection that the economic value of the trademark enjoys in a certain legal order, as it happens in the USA and Canada.[29] In accordance with Article 1 (1) of the TRIPs Agreement, the Contracting Parties are free to decide on the extent of protection granted for the economic value of trademarks. On the contrary, such a view can be accepted as regards cases where the exclusion of parallel trade by reference to trademark protection is dictated by protectionist considerations in favour of domestic undertakings/industry.

Thirdly, the above-mentioned recognition must be necessary for the application of the trademark law of the Contracting Party. Prior to the entry into force of the TRIPs Agreement, the fulfilment of this condition could be checked on the basis of the national trademark provisions of each Contracting Party. However, after the entry into force of the TRIPs Agreement, the fulfilment of this condition must be checked on the basis of the provisions of that Agreement, which introduces a minimum level of intellectual property protection, which must be adopted by all the Member States of the WTO.[30] Therefore, after a Contracting Party has transposed the provisions of the TRIPs Agreement into its national law and on the assumption that the aforementioned provisions are effectively implemented by its administrative and jurisdictional mechanisms, the Contracting Party must be considered that provides adequate trademark protection in the view of all the Contracting Parties to the WTO Agreement. Should a trademark proprietor be, according to the legislation or the case law of the courts of a Contracting Party, entitled to oppose parallel imports concerning goods not put on the market domestically (doctrine of national exhaustion of rights) or in another Contracting Party belonging to the same union of nations (doctrine of regional exhaustion of rights) by the trademark proprietor or with his consent, such a situation is not necessarily essential for the protection of trademark rights in the Contracting Party where the trademark proprietor is established. This is the case only where the recognition of the principle of national exhaustion of rights or of the principle of regional exhaustion of rights has been dictated by the extent of protection granted by the Contracting Party for the economic value of trademarks, an issue on which the Contracting Parties are free to decide.[31] Otherwise, prohibitions on parallel imports cannot be considered to be necessary for the effective implementation of the Contracting Party's trademark law. Parallel imported goods are goods that are genuine and that have been legally put on the market for the first time. Any inadequacies in the administrative or jurisdictional mechanisms of the Contracting Parties to combat the phenomenon of counterfeiting and piracy do not suffice to justify a situation in which the owner of a trademark is entitled to oppose any

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[29] For the legal treatment of parallel imports of trademarked goods under US law, see *infra* Sect. 13.1. For Canadian law, see Peterman (1993), p. 181; Swanson (2000), pp. 347–348.

[30] So also Abbott (1998), pp. 632–635; Stucki (1997), p. 51.

[31] See Article 1 (1) of the TRIPs Agreement, according to which "Member [the Contracting Parties] may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement".

importation of goods bearing the trademark carried out by a third party. Besides, Article 6 of the TRIPs Agreement does not contain a provision that establishes a minimum standard, so that an ability of trademark owners to oppose parallel imports could be considered to be covered by the provision of Article 1 (1) of the TRIPs Agreement. In the light of the foregoing considerations, the adoption of the regimes of national exhaustion of trademark rights and of regional exhaustion of trademark rights is contrary to Article XX (d) of the GATT 1994, so long as it is motivated by protectionist considerations in favour of domestic undertakings/ industry.

According to the foregoing analysis, therefore, when the recognition of the principles of national exhaustion of trademark rights and of regional exhaustion of trademark rights is motivated by protectionist considerations in favour of domestic undertakings/industry, those principles cannot be considered to be compatible with the GATT 1994 on the basis of the provision of Article XX (d) of the GATT 1994. However, it cannot be deduced from that provision that the Contracting Parties are obliged to adopt a doctrine of international exhaustion of trademark rights. Thus, Article XX (d) of the GATT 1994 cannot support the view that the GATT 1994 recognises implicitly the principle of international exhaustion of trademark rights. This is because Article XX (d) of the GATT 1994 constitutes a provision that introduces an exemption to all the other provisions of the GATT 1994, including Articles XI (1) and III (4) of the GATT 1994, and, as such, must be narrowly interpreted.[32] Thus, the maximum that can be accepted is that the principle of national exhaustion of trademark rights and the principle of regional exhaustion of trademark rights are not compatible with the GATT 1994 where their adoption constitutes a disguised restriction on trade between the Contracting Parties, namely where the adoption of the principles in question is prompted by protectionist considerations in favour of domestic undertakings/industry,[33] which favour price discrimination between national markets.[34]

Nevertheless, such an interpretation of the provision of Article XX (d) of the GATT 1994 leads to a result contrary to the position adopted by legal literature prior to the entry into force of the WTO Agreement on the issue of exhaustion of intellectual property rights. In particular, under the GATT 1947, it was generally accepted that prohibitions on parallel imports by virtue of a regime of national exhaustion of intellectual property rights were covered by the provision of Article XX (d) of the GATT 1947.[35] The consolidation of this position was probably favoured by the fact that no dispute over the compatibility of the regime of

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[32] Cf., in this regard, the judgment by the GATT panel in *United States—Section 337 of the Tariff Act of 1930*, GATT Doc. L/6439 of 16.01.1989, BISD 45, 1988–1989, at 345; also Bail (1991), p. 140.

[33] Cf. the first judgment by the WTO Appellate Body of 20.04.1996, *United States—Standards for Reformulated Gasoline*, AB -1996-1, WT/DS2/AB/R.

[34] So also Freytag (2001), pp. 244–245.

[35] See Cottier (1991), p. 400: “Article XX (d) of GATT provides the basis for exclusion of parallel importation whenever the doctrine of national exhaustion is applied by a contracting party”.

exhaustion of intellectual property rights adopted by a Contracting Party with the GATT 1947 was ever brought before the GATT dispute settlement system. In the light of the above-mentioned position and the fact that the provision of Article XX (d) of the GATT 1947 was not subject to amendment during the Uruguay Round negotiations, the crucial question is whether, after the entry into force of the WTO Agreement, blocking parallel imports by virtue of the principle of national exhaustion of intellectual property rights remains covered by the provision under consideration.

According to an approach, formulated with respect to the patent right, the provision of Article XX (d) of the GATT 1994 continues to provide a basis for the doctrine of national exhaustion of rights and now also for the doctrine of regional exhaustion of rights being deemed compatible with the GATT 1994. In support of this approach, it has been argued, firstly, that the fact that the above-mentioned provision remained unchanged in the context of the Uruguay Round negotiations does not make a new interpretation of that provision possible. Secondly, it has been noted that the GATT 1994 does not seek to create a "single market, reproducing as closely as possible the conditions of a domestic market" between the Contracting Parties, so that a uniform interpretation of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), on one hand, and the respective articles of the GATT 1994 [Articles XI and XX (d)], on the other, is not appropriate. Thirdly, it has been stressed that a new interpretative approach to the provision under consideration would not be consistent with the wish of the Contracting Parties to the WTO Agreement, which chose to leave the issue of the exhaustion of intellectual property rights unregulated (Article 6 of the TRIPs Agreement).[36]

It is the view of this author that the foregoing considerations do not appear convincing. On the contrary, with respect to obstacles to the free movement of goods created by virtue of the doctrine of national exhaustion of rights and the doctrine of regional exhaustion of rights, one could propose a new interpretative approach to Article XX (d) of the GATT 1994 in the light of the general principle of "in dubio mitius", which governs the interpretation of International Agreements—Treaties.[37] According to the aforementioned principle, the limitation of sovereign competence of a country in a matter regulated by an International Agreement cannot be presumed, but such a limitation requires the consent of the country. On the basis of the "in dubio mitius" principle, in order for the provisions of Articles XI

[36] See Bronckers (1998), pp. 156–158.

[37] For the application of the "in dubio mitius" principle in the interpretation of the WTO Agreement, see WTO Appellate Body, *EC—Measures Concerning Meat and Meat Products* (*Hormones*) (WT/DS26/AB/R—WT/DS48/AB/R), adopted on 13.02.1998, at 63–64, para. 165, and the references thereto, where the semantic content of the above-mentioned principle is given as follows: "The principle of in dubio mitius applies in interpreting treaties, in deference to the sovereignty of states. If the meaning of a term is ambiguous, that meaning is to be preferred which is less onerous to the party assuming an obligation, or which interferes less with the territorial and personal supremacy of a party, or involves less general restrictions upon the parties".

and XX (d) of the GATT 1994 to be interpreted as allowing the Contracting Parties to accept only international exhaustion of trademark rights, a consent of the Contracting Parties must have been given for the limitation of their sovereign competence in the issue of the legal treatment of parallel imports of trademarked goods. Such consent, however, does not exist, as confirmed by Article 6 of the TRIPs Agreement. The previously mentioned Article embodies not only the discord between the Contracting Parties to the WTO Agreement on the incorporation of a doctrine regulating that issue into the TRIPs Agreement but also the agreement of the Contracting Parties to the WTO Agreement on that issue continuing to be subject to their sovereign competence. This position is also confirmed by the Doha Declaration on the TRIPs Agreement and Public Health, which was adopted by the WTO Ministerial Conference of 2001 in Doha 14 November 2001. In particular, according to paragraph 5 (d) of the Doha Declaration on the TRIPs Agreement and Public Health:

> 5. Accordingly and in the light of paragraph 4 above, while maintaining our commitments in the TRIPS Agreement, we recognise that these flexibilities include:
>
> [. . .]
>
> (d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.[38]

Regardless of the legal status of the Doha Declaration, the above provision indeed confirms that the Contracting Parties to the WTO Agreement wanted the choice between national exhaustion of rights, regional exhaustion of rights, or international exhaustion of rights to continue to be subject to their sovereign competence.

In conclusion, in the light of the interpretative principle of "in dubio mitius", the provision of Article XX (d) of the GATT 1994 should be interpreted as allowing the Contracting Parties to adopt the regimes of national and regional exhaustion of trademark rights. Despite the fact that, in the overwhelming majority of the Contracting Parties where parallel imports can be prohibited by virtue of a regime of national or regional exhaustion of trademark rights, the ability of trademark proprietors to oppose parallel imports cannot be justified by reference to the scope of protection of the economic value of trademarks, the interpretative principle of "in dubio mitius" in conjunction with Article 6 of the TRIPs Agreement and paragraph 5 (d) of the Doha Declaration on the TRIPs Agreement and Public Health makes it necessary that the provision of Article XX (d) of the GATT 1994 is interpreted in this way. However, the fact that the provision of Article XX (d) of the GATT 1994 does not oblige the Contracting Parties to abandon the above-mentioned regimes does not mean that the doctrine of national exhaustion of trademark rights, the doctrine of regional exhaustion of trademark rights, and the doctrine of

[38] For the Doha Declaration on the TRIPs Agreement and public health, see indicatively Abbott (2002), Amir (2002), Dilip (2005) and Haochen (2004).

international exhaustion of trademark rights are equally compatible with the law relating to the GATT 1994. On the contrary, in the light of Articles XI and XX (d) of the GATT 1994, the doctrine of international exhaustion of trademark rights is more consistent with the legal system established by the GATT 1994.

The GATT 1994, therefore, neither prohibits the principle of national exhaustion of trademark rights and the principle of regional exhaustion of trademark rights nor obliges its Contracting Parties to recognise the principle of international exhaustion of trademark rights. Nevertheless, it follows from an interpretative approach to its provisions relating to the issue of the legality of parallel imports that the principle of international exhaustion of trademark rights is more consistent with the legal system established by the Agreement in question.

4.3.5 Article XXIV of the GATT 1994

Although the doctrine of regional exhaustion of trademark rights is finally compatible with the GATT 1994, on the basis of the interpretation of the provision of Article XX (d) of the GATT 1994 suggested above, an issue arises as to the compatibility of the aforementioned doctrine with another provision of the Agreement in question and, in particular, with the provision of Article I (1) of the GATT 1994. According to the latter provision:

> With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III, any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

In the light of the above provision, the Contracting Parties to the WTO Agreement must apply the principle of the most favoured nation to goods originating in other Contracting Parties and, by extension, to parallel imported goods. Thus, the regime of regional exhaustion of rights, by virtue of which only parallel imports of trademarked goods put on the market in a union of nations by the trademark proprietor or with his consent are legal, is not consistent with the provision of Article I (1) of the GATT 1994.

However, the legality of the doctrine of regional exhaustion of rights could be based on Article XXIV of the GATT 1994, which introduces an exemption to the most-favoured-nation principle by establishing the legality of the so-called regional economic unions. It might be objected to such a view that, in view of the fact that no provision of the TRIPs Agreement introduces an exemption to the most-favoured-nation principle, no derogation from the homonymous principle of the GATT 1994 can also be acceptable. But the aforementioned objection contravenes the observation that there is a substantial difference between the most-favoured-nation principle of the TRIPs Agreement and the most-favoured-nation principle of the GATT 1994. The most-favoured-nation principle of the GATT 1994 prohibits discrimination between goods originating in other Contracting Parties, while the homonymous principle of the TRIPs Agreement prohibits discrimination between nationals of other Contracting Parties. The issue of exhaustion of intellectual property rights is not related to the nationality of the proprietors of such rights but to the geographical origin of parallel imported goods covered by such rights. Therefore, a conflict between the doctrine under consideration and the principle of the most favoured nation of the TRIPS Agreement cannot de facto arise. If, however, in the context of the TRIPs Agreement, the regulation of an issue that may be addressed under a provision of the GATT 1994 is, by its very nature, impossible, consideration of the issue under the GATT 1994 should not be excluded in view of the fact that the TRIPs Agreement and the GATT 1994 apply in parallel. Thus, Article XXIV of the GATT 1994 might provide a basis for the compatibility of the doctrine of regional exhaustion of trademark rights with the GATT 1994, despite the conflict between the aforementioned doctrine and Article I (1) of the GATT 1994.

As observed above, Article XXIV of the GATT 1994 introduces an exemption to the principle of the most favoured nation by establishing the legality of the so-called regional economic unions, namely customs unions and free trade areas (see Article XXIV (8) of the GATT 1994), provided that some conditions are satisfied (see Article XXIV (5) of the GATT 1994), which aim to ensure the interests of the other Contracting Parties. Thus, in order for the doctrine of regional exhaustion of trademark rights adopted by the Contracting Parties-Member States of a customs union or a free trade area to be legal under the GATT 1994, the conditions of Article XXIV (5) of the previously mentioned Agreement must be met. According to the latter provision:

> 5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free trade area; Provided that:
>
> (*a*) with respect to a customs union, or an interim agreement leading to a formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;
>
> (*b*) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement as the case may be; and
>
> (*c*) any interim agreement referred to in subparagraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

As it has been rightly pointed out, it follows from the above provision that establishing an obligation for the Member State of a customs union or a free trade area to recognise a regime of regional exhaustion of trademark rights instead of a regime of national exhaustion of those rights is compatible with the GATT 1994.[39] This is because a transition from a regime of national exhaustion of trademark rights to a regime of regional exhaustion of those rights entails, indeed, preferential treatment for parallel imported goods originating in other Member States of the customs union or the free trade area, but it does not entail raising new obstacles to market access for parallel imported goods originating in third countries. In other words, such a transition does not make market access for goods imported in parallel more difficult but entails the legality of parallel imports that could previously be prohibited on the grounds that they concerned goods that had not been put on the domestic market by the holders of the trademarks borne by the goods or with their consent. Trademark proprietors retain the right to prevent parallel imports concerning goods originating in a third Contracting Party, as it is true by virtue of a regime of national exhaustion of trademark rights.

On the contrary, as it has been rightly pointed out, it follows from the above provision that establishing an obligation for the Member State of a customs union or a free trade area to recognise a regime of regional exhaustion of trademark rights instead of a regime of international exhaustion of those rights violates the GATT 1994.[40] This is because a transition from a regime of international exhaustion of trademark rights to a regime of regional exhaustion of those rights makes market access for parallel imported goods put on the market in third countries more difficult. Parallel imports of trademarked goods that were initially lawful can, now, be prohibited by trademark proprietors. This means treatment less favourable for parallel imported trademarked goods put on the market in third nations, namely treatment less favourable for trademarked goods imported in parallel that have not been put on the market inside the customs union or the free trade area by the proprietors of the trademarks borne by the goods or with their consent. Establishing an obligation for a Member State of a customs union or a free trade area to abandon a regime of international exhaustion of trademark rights in favour of a regime of regional exhaustion of trademark rights runs, therefore, in principle, afoul of the GATT 1994. However, such an obligation may ultimately be deemed as non-contrary to the GATT 1994 by analogy with Article XXIV (6) of the GATT 1994, in view of the uniform treatment of customs duties and other restrictions on trade by the Agreement in question.[41] In particular, by analogy with Article XXIV (6) of the GATT 1994, the extension of trademark protection in order to include the power to exclude parallel imports from a third Contracting Party (in relation to a customs union or a free trade area) may be finally deemed compatible with the GATT 1994 in the same way as an increase in rate of duty in a way incompatible

[39] Cottier (1995), p. 55. So also Stucki (1997), p. 54.

[40] Cottier (1995), p. 55. So also Stucki (1997), p. 54.

[41] So also Freytag (2001), p. 250.

with Article II of the GATT 1994 may be deemed compatible with the GATT 1994, provided that the procedure set forth in Article XXVIII of the GATT 1994 has been followed. Thus, the obligation of the Member States of the European Union to adopt a doctrine of regional (Union-wide) exhaustion of trademark rights instead of a doctrine of international exhaustion of trademark rights, according to the interpretation given by the ECJ concerning the provision of Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC),[42] is in fact contrary to the provision of Article XXIV (5) of the GATT 1994 but should be expected to ultimately be deemed compatible with the GATT 1994, after the procedure set forth in Article XXVIII of the GATT 1994 has been opened and completed.[43]

4.4 Concluding Remarks

Following the interpretative approach to the provisions of the GATT 1994 relevant to the problem of the legality of parallel imports, it is to be noted that the GATT 1994 does not impose on its Contracting Parties an obligation to adopt a certain doctrine of exhaustion of trademark rights. However, the doctrine of international exhaustion of trademark rights appears to be more consistent with the law relating to the GATT 1994.[44]

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[42] *See* Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799 (see *infra* Sect. 9.4.4.2).

[43] So also Freytag (2001), p. 251.

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Chapter 5
Conclusion to Part II

It follows from Part II of this book that GATT/WTO Law assigns to the sovereign competence of states and unions of states the choice between the doctrines of national, regional, and international exhaustion of the exclusive right flowing from the trademark (Article 6 of the TRIPs Agreement), despite the fact that the doctrine of international exhaustion of trademark rights appears to be more compatible with the provisions of the aforementioned law [Articles XI (1), III (4), and XX (d) of the GATT 1994]. Therefore, the above-mentioned law already legitimises or, in any case, accepts the use of the trademark right as a means of excluding parallel trade. Such a conclusion may, prima facie, seem odd, given that the doctrine of international exhaustion of trademark rights is the only doctrine that is fully in harmony with the aim of trade liberalisation. However, both the non-regulation of the issue of the legality of parallel imports of trademarked goods and the fact that the Contracting Parties to the WTO Agreement retained the authority to regulate freely that issue may, in this author's view, be explained by reference to the economic nature of the phenomenon of parallel imports and its dubious impact on global socioeconomic welfare. More specifically, according to economic analysis and in view of the dubious impact of the phenomenon of parallel imports on global socioeconomic welfare, it appears more appropriate for nations and unions of nations to be left free to regulate the issue of the legality of parallel imports with a view to promoting socioeconomic welfare in their territory or in their geographical area, respectively.[1] In the light of this position, the fact that GATT/WTO Law, obviously on the basis of the economic nature of the phenomenon of parallel imports and the need for the law to promote socioeconomic welfare (cf. Article 7 of the TRIPs Agreement), assigns to the sovereign competence of nations and unions of nations the regulation of the issue relating to the exhaustion of trademark rights is justified and should be welcomed.

[1] See Maskus (2000), p. 1283 and—in substance—Müller-Langer (2012), p. 184. See also *supra* 1.3.1.3.

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Part III
Exhaustion of Trademark Rights and Legality of Parallel Imports Under European Union Law

Chapter 6
Introduction to Part III

Part III of this book focuses on the issues of exhaustion of trademark rights and the legality of parallel imports of trademarked goods under European Union law.

In particular, Chap. 7 reviews the legal treatment of parallel imports of trademarked goods in the European Economic Community (now European Union), until the adoption of Directive 89/104/EEC. In particular, the principles developed by the ECJ for the investigation of the legality of the exercise of trademark rights under Articles 30 and 36 EEC Treaty (now Articles 34 and 36 of the TFEU) are analysed. The previously mentioned doctrines include, specifically, the doctrine of "exercise/existence of the right", the doctrine of "common origin", the doctrine of "specific subject matter of the right", the doctrine of "essential function of the right" and, finally, the doctrine of "Community-wide exhaustion of rights". The aim of these doctrines was exactly to demarcate the exercise of intellectual property rights that was consistent with the goal of the common market from the one that was not consistent with that goal. Despite the fact that provisions regulating the issue of the legality of parallel imports are set out in the applicable EU secondary intellectual property law, including EU secondary trademark law, the ECJ's case law on the legality of the exercise of intellectual property rights under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) retains its importance. This is because the aforementioned provisions must be interpreted in the light of that case law, as expressly stated by the Court in decisions concerning the legality of parallel imports of trademarked goods.

Chapter 8 describes the current EU legal framework for the legality of parallel imports of trademarked goods, that is to say the EU rules governing the legality of such imports into Member States of the European Union are identified [Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009]. Moreover, it provides the context on which the interpretation of the previously mentioned articles and the national implementing provisions (in relation to Article 7 of Directive 2008/95/EC) must be based.

Chapter 9 analyses, in the light of the ECJ's case law, the conditions laid down for the application of the exhaustion of rights rules mentioned within the EU legal framework applicable to trademarks, namely the provisions of Articles 7 (1) of

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Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009. In particular, it examines the concept of "trademarked good", the concept of "putting on the market" of a trademarked good, the geographical scope of those provisions, and, finally, the cases where the putting on the market of a trademarked good is done, in accordance with those provisions, by the owner of the trademark or with his consent. Moreover, special issues regarding the application of the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009 are considered and, in particular, the legal consequences of the rules contained in the above-mentioned provisions, the possibilities of recognizing a regime of international exhaustion of trademark rights under the above-mentioned provisions, the possibility of a conflict between the above-mentioned provisions and Articles 101 and 102 of the TFEU, and, finally, the allocation of the burden of proof in cases concerning the legality of parallel imports of trademarked goods.

Chapter 10 analyses, in the light of the ECJ's case law, the cases in which the application of the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 is precluded, that is to say the semantic content of the term "legitimate reasons" used in Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009. Based on the doctrine of specific subject matter of trademark rights, i.e. the rationale of the rule of Community-wide exhaustion of trademark rights, "legitimate reasons" allowing the proprietor of a trademark to oppose parallel imports of goods bearing the trademark that have been put on the market within the EEA by the trademark proprietor or with his consent or, in other words, "legitimate reasons" for excluding the application of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 shall exist (a) where the condition of the parallel imported goods is changed or impaired after they have been put on the market for the first time and (b) where the use of the trademark affixed to the parallel imported goods by the independent trader (parallel importer or independent reseller) entails damage or a risk of damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark.

The discussion concludes with Chap. 11.

Chapter 7
The Question of the Legality of Parallel Imports of Trademarked Goods Under Primary Community (Now EU) Law

7.1 Introduction

Primary objective of the European Economic Community ("Community" or "EEC"/now "European Union"[1]) was, according to its Founding Treaty ["Treaty of Rome" or "EEC Treaty"/now Treaty on the Functioning of the European Union ("TFEU")[2]], the merging of the national markets of its Member States[3] into one single and common market (Article 2 of the EEC Treaty, now "internal market" among the Member States of the European Union pursuant to Article 3 of the TFEU[4]). In order to examine the compatibility of the exercise of intellectual property rights recognised by the legal systems of the Member States (including

[1] According to Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty (officially entitled "the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community"), the European Union (hereinafter: EU) succeeds and replaces the European Community.

[2] The European Economic Community was established by the Treaty of Rome, of 25.03.1957 (with effect from 14.01.1958), between the following countries: Belgium, France, Germany, Italy, Netherlands, and Luxemburg. The EEC Treaty was amended to EC Treaty by the Maastricht Treaty (or Treaty on European Union), of 07.02.1992 (with effect from 01.11.1993). The EC Treaty was amended by the Treaty of Amsterdam, of 02.10.1997 (with effect from 01.05.1999), and the Treaty of Nice, of 26.02.2001 (with effect from 01.02.2003). Finally, the EC Treaty was amended to Treaty on the Functioning of the European Union by the Treaty of Lisbon, of 13.12.2007 (with effect from 01.12.2009). Member States of the European Union are currently the following countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom.

[3] Where, in the context of the present chapter, the term "Member State" is used without any further explanation, this term shall refer to the Member States of the European Community (now Member States of the European Union).

[4] Article 2 of the EC Treaty (ex-Article 2 of the EEC Treaty) has been—in substance—replaced after the entry into force of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007

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trademark rights) with that objective, critical was the exclusive competence of the Community to take action, firstly, for the elimination of customs duties, quantitative restrictions on the import and export of goods, and all other measures having equivalent effect in trade between Member States and, secondly, to establish a system that would ensure undistorted competition within the common market [Article 3 (a) and (f) of the EEC Treaty, now Article 3 (1) (a) and (b) of the TFEU[5]]. The exclusive competence of the Community in the above fields was specified as to the first category of measures in Article 30 of the EEC Treaty (now Article 34 of the TFEU), while as to the second category in Articles 85 and 86 of the EEC Treaty (now Articles 101–102 of the TFEU).[6] Article 30 of the EEC Treaty (now Article 34 of the TFEU) was addressed to the Member States and prohibited the establishment or the maintaining in force of quantitative restrictions on the import and export of goods and all other measures having equivalent effect in trade between Member States. Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) were addressed to undertakings and aimed at ensuring conditions of undistorted competition within the common market.[7]

As discussed in the Preface to this book, at the heart of the conflict between the principles of territorial protection of trademark rights and the free movement of goods is the issue of the legality of parallel imports. The aforementioned issue is also connected with the problem of the legitimacy of non-price vertical distribution restraints.[8] The inherent conflict between the principles of the free movement of goods and territoriality of trademark rights was particularly pronounced in parallel trade between Member States. Indeed, in all the founding Member States of the Community, the principle of territorial protection of trademark rights prevailed in the

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and entered into force on 01.12.2009) by Article 3 of the TEU. See Annex to the Lisbon Treaty (Table of Equivalences referred to in Article 5 of the Treaty of Lisbon) (C 306/202).

[5] Article 3 of the EC Treaty (ex-Article 3 of the EEC Treaty) has been—in substance—replaced after the entry into force of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009) by Articles 3–6 of the TFEU.

[6] Articles 30 and 36 of the EEC Treaty have been renumbered Articles 28 and 30 of the EC Treaty by virtue of the Maastricht Treaty (or Treaty on European Union), of 07.02.1992 (with effect from 01.11.1993), and Articles 34 and 36 of the TFEU by virtue of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009). Articles 85 and 86 of the EEC Treaty have been renumbered Articles 81 and 82 of the EC Treaty by virtue of the Maastricht Treaty (or Treaty on European Union), of 07.02.1992 (with effect from 01.11.1993), and Articles 101 and 102 of the TFEU by virtue of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009).

[7] On the issue of demarcating the application of Articles 30–36 of the EEC Treaty (subsequently Articles 28–20 of the EC Treaty and now Articles 34–36 of the TFEU) from that of Articles 85–86 of the EEC Treaty (subsequently Articles 81–82 of the EC Treaty and now Articles 101–102 of the TFEU), see Ebenroth and Hübschle (1994a), pp. 138–141, Nr. 157–160; Pescatore (1987), pp. 384–386; Schödermeier (1987); VerLoren Van Themaat (1976).

[8] See *supra* section "The Problem of the Legality of Non-price Vertical Restraints".

middle of the previous century. The achievement, however, of the goal of ensuring the establishment and the functioning of the common market presupposed that the principle of free movement of goods was implemented and a system of undistorted competition was ensured among those states. Thus, allowing trademark proprietors to oppose intra-Community parallel trade by relying on the territorial protection of their rights could render the free movement provision of Article 30 of the EEC Treaty (now Article 34 of the TFEU) and the competition provisions of Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) ineffective. In particular, unilateral prohibitions on parallel imports, which would be based only on the exclusive and absolute protection of trademark rights, could undermine the effective implementation of Article 30 of the EEC Treaty (now Article 34 of the TFEU). On the other hand, contractual prohibitions on parallel imports, which would be based on contractual clauses offering absolute territorial protection to exclusive distributors or trademark licensees, could undermine the effective implementation of Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU).

The possibility of Articles 30 of the EEC Treaty (now Article 34 of the TFEU) and 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU) being rendered ineffective as a result of the exercise of the trademark right and the other intellectual property rights was understood by the European Court of Justice ("ECJ" or "Court") since the first years of the establishment of the Community.[9] In its attempt

[9] See Case C-24/67, *Parke, Davis and Co. v. Probel, Reese, Beintema-Interpharm and Centrafarm*, [1968] ECR 86, in the German version, 76 in the Italian version, 82 in the Dutch version, and 81 in the French version; Joined Cases C-56/64 and C-58/64, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community,* [1966] ECR 322 in the German version, 458 in the Italian version, 450 in the Dutch version and 429 in the French version; Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69.

On the contrary, in academic circles, although it was identified very early on that an inherent conflict arose between the goal of the common market and the territorial protection of industrial property rights, nevertheless some authors argued for even a total exclusion of the applicability of the EEC Treaty to industrial property rights on the basis of Articles 36 and 222 of the EEC Treaty (now Articles 36 and 345 of the TFEU). In particular, such views were formulated by legal authors who supported either that industrial property rights were not subject to the EEC Treaty at all or that industrial property rights were partially subject to the EEC Treaty (see Hefermehl and Fezer 1979, pp. 36–41). Legal authors who argued that industrial property rights were not subject to the EEC Treaty at all rejected any possibility of the EEC Treaty applying to industrial property rights on the basis that Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) was a provision that excluded those rights from the scope of application of all the provisions of the EEC Treaty (see Monnet 1965; Gotzen 1958, p. 225; and Schrans 1964, p. 629). Legal authors who argued that industrial property rights were partially subject to the EEC Treaty accepted that the exercise of such rights was subject to Articles 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU) but concluded that the rights in question were excluded from the scope of the EEC Treaty on the basis that industrial property licenses were not subject in themselves to those Articles (see Heydt 1960, p. 352; Spengler 1958). It was, indeed, argued that the only way to remove any barriers to achieving the goal of the common market resulting from the exercise of industrial property rights was the harmonisation of the Member States' national laws in that sphere (see Windisch 1969, pp. 194–200, and 30 n. 77). The aforementioned views were rebutted by competition academic authors who supported that to solve perhaps the most important problem that could arise for the economic integration of the Community as a result of the exercise of those rights, namely the problem of the legality of intra-Community parallel trade, it introduced in its judgments a series of doctrines, some of which are still used by the Court in assessing the legality of parallel trade under EU secondary law. The previously mentioned doctrines include, specifically, the doctrine of "exercise/existence of the right", the doctrine of "common origin", the doctrine of "specific subject matter of the right", the doctrine of "essential function of the right" and, finally, the doctrine of "Community-wide exhaustion of rights".[10] The aim of those doctrines was exactly to demarcate the exercise of intellectual property rights that was consistent with the goal of the common market from the one that was not consistent with that goal. The development of the doctrines in question was based on Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) despite the fact that, until about the early 1970s, the ECJ examined the compatibility of the exercise of intellectual property rights with the goal of the common market in the light of Articles 85–86 of EEC Treaty (now Articles 101–102 of the TFEU). However, the ECJ made use of the doctrines in question, subsequently, also in cases where the dispute concerned the legality of the exercise of those rights under the competition provisions of the EEC Treaty (now TFEU).[11] The doctrine of Community-wide exhaustion of rights, after it has been incorporated into legal instruments of Community (now EU) secondary law, is now a positive law of the European Union, which, according to Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty, succeeds and replaces the European Community.

It is made clear that the Court treated uniformly, in principle, industrial property rights and copyright in the light of Articles 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU) and 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU). Thus, the Court's positions expressed about the legality of the exercise of an industrial property right or of copyright in the light of the aforementioned Articles apply in principle also to the other intellectual property rights.[12] This uniform treatment was obviously based on the provision of Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), which concerned all the intellectual property rights.

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industrial property rights should be subject to Articles 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU) (see Deringer 1962–1968, Art. 85, n. 35 and 77; Johannes 1976, pp. 8–10; VerLoren Van Themaat 1964).

[10] It is to be reminded that the practice of parallel imports may concern whatever product, protected or not by an industrial property right or copyright. However, the exclusive right flowing from the trademark has always been the strongest manufacturers' and exclusive distributors' weapon for the prohibition of parallel imports between Member States of the European Community (now European Union). Cf. Hays (2004), para. 9.02. See also *supra* Sect. 1.3.2.1.

[11] See Kinini (2004), pp. 204–209; Stamatoudi (2006), pp. 85–89.

[12] Cf. also Opinion of Advocate General Jacobs in Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV*, [1997] ECR I-6013, point 59.

In the following sections of this chapter, the main points of the case law developed by the Court on the question of the legality of parallel imports of trademarked goods under the EEC Treaty will be presented. Despite the fact that provisions regulating the issue of the legality of parallel imports are set out in the applicable EU secondary intellectual property law, including EU secondary trademark law, the ECJ's case law on the legality of the exercise of intellectual property rights under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) retains its importance. This is because the aforementioned provisions must be interpreted in the light of that case law, as expressly the Court stated in decisions concerning the legality of parallel imports of trademarked goods.[13]

7.2 The ECJ's Case Law: First Approach—Assessing the Legality of Parallel Imports of Trademarked Goods in the Light of the Rules on Competition of the EEC Treaty (Now TFEU)

7.2.1 The Decision Consten and Grundig v. Commission of the EEC

In its first decisions on cases concerning the issue of the legality of parallel imports of goods protected by industrial property rights, the ECJ tried to deal with that issue in the light of the rules on competition of the EEC Treaty (Articles 85 and 86 of the EEC Treaty, now Articles 101 and 102 of the TFEU). Specifically, the first decision in which the issue of the legality of parallel imports of trademarked goods was dealt with under the above-mentioned rules was the decision in *Consten and Grundig v. Commission of the EEC*.[14]

In *Consten and Grundig v. Commission of the EEC*, the dispute concerned the legitimacy of a decision of the Commission of the European Communities ("Commission"/now European Commission[15]), where the latter deemed that preventing trademarked goods from being imported in parallel by virtue of an agreement on the registration and the exclusive use of a trademark in a Member State by a sole distributor contradicted Article 85 of the EEC Treaty (now Article 101 of the TFEU).[16] The main argument put forward by the applicants was that Articles

[13] See *infra* section "In the Light of EU Primary Law".

[14] Joined Cases C-56/64 and C-58/64, *Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community,* [1966] ECR 322 in the German version, 458 in the Italian version, 450 in the Dutch version, and 429 in the French version.

[15] See Article 13 (1) of the TEU, as amended by the Treaty of Lisbon.

[16] See 64/566/CEE: Décision de la Commission, du 23 septembre 1964, relative à une procédure au titre de l'article 85 du traité (IV-A/00004-03344 "Grundig-Consten"), OJ of 20.10.1964, 2545/64.

36 and 222 of the EEC Treaty (now Articles 36 and 345 of the TFEU) excluded industrial property rights from the scope of Community (now EU) law.[17] Thus, according to the applicants, Community law did not preclude a trademark right from being used as a means of providing absolute territorial protection, namely as a means of controlling and restricting parallel imports. On this argument, the Court observed, in relation to Article 36 of the EEC Treaty (now Article 36 of the TFEU), that the Article cannot limit the scope of application of Article 85 of the EEC Treaty (now Article 101 of the TFEU).[18] Moreover, in relation to Article 222 of the EEC Treaty (now Article 345 of the TFEU), it observed that the Commission's decision "does not affect the granting of [trademark rights] but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU]".[19] Finally, the Court stated that the exercise of a trademark right in order to frustrate Community law on cartels is improper and is not allowed under the EEC Treaty (now the TFEU).[20] So, in the light of the *Consten and Grundig v. Commission of the EEC* decision, vertical restraints set out in exclusive distribution contracts and exclusive trademark licences that aim at eliminating intra-brand competition and, by extension, at excluding parallel imports are, at least normally, incompatible with Article 101 of the TFEU.[21]

The rules of Articles 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU) formed the basis for a consideration of the problem of the legality of parallel imports of trademarked goods by the ECJ until the early 1970s.

7.2.2 Assessing the Legality of Parallel Imports of Trademarked Goods in the Light of Article 85 of the EEC Treaty (Now Article 101 of the TFEU)

The most significant statement made by the ECJ in judgments concerning the application of Article 85 of the EEC Treaty (now Article 101 of the TFEU) in assessing the legality of prohibiting parallel imports of trademarked goods under the EEC Treaty (now TFEU) was that a trademark right, as a legal entity, does not

[17] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version.

[18] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version.

[19] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version.

[20] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version.

[21] It is interesting to mention that, in *Consten and Grundig v. Commission of the EEC*, the Court made it clear that "Although competition between producers is generally more noticeable than that between distributors of products of the same mark, it does not thereby follow that an agreement tending to restrict the latter kind of competition should escape the prohibition of Article 85 (1) merely because it might increase the former". See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 390 in the German version.

possess those elements of contract or concerted practice referred to in Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU]; nevertheless, the exercise of that right might fall within the prohibition laid down in the aforementioned provision each time it manifests itself as the subject, the means, or the consequence of a practice that restricts competition within the common market.[22]

In the judgment in *Consten and Grundig v. Commission of the EEC*, the Court deemed that the exercise of the rights conferred by a national trademark is improper where such an exercise aims at frustrating Community law on cartels.[23] By this statement, the Court made it clear that, in order to determine whether the exercise of a trademark right is compatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU], it is necessary to determine the purpose intended or served through that exercise.

Based on the formulations contained in the decision in *Consten and Grundig v. Commission of the EEC*, if the exercise of a trademark right manifests itself as the subject, the means, or the consequence of a practice that excludes parallel trade between EU Member States, namely in particular if an exclusive distributor or an exclusive trademark licensee relies on contractual clauses set out in the distribution contract or the licence in order to exclude parallel trade of trademarked goods, such an exercise is subject, at least in principle, to the prohibition laid down in Article 101 (1) of the TFEU.[24] This observation is reaffirmed by the subsequent case law of the ECJ, namely by the decisions in *Sirena v. Eda*[25] and *Béguelin Import v. GL Import Export*,[26] despite the fact that the term "improper use of rights", used by the Court in *Consten and Grundig v. Commission of the EEC*, is not mentioned in those decisions.

The distinction between abusive and non-abusive exercise of trademark rights under Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU] based on the purpose intended or served through that exercise was used again by the Court in the judgment in *BAT v. Commission*.[27] In that decision, it was rightly recognised that the so-called delimitation agreements between trademark proprietors are, in principle, compatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of

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[22] Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69, para. 9; Case C-51/75, *EMI Records Limited v. CBS United Kingdom Limited*, [1976] ECR 811, paras 25–26. The same position was adopted by the Court also in relation to other intellectual property rights. See Case C-24/67, *Parke, Davis and Co. v. Probel, Reese, Beintema-Interpharm and Centrafarm*, [1968] ECR 86, 112 in the German version (in relation to the patent right); Case C-78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH & Co. KG*, [1971] ECR 487, para. 6 (in relation to a right related to copyright); Case C-144/81, *Keurkoop BV v. Nancy Kean Gifts BV*, [1982] ECR 2853, para. 27 (in relation to the industrial design right).

[23] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version.

[24] See *supra* Sect. 7.2.1.

[25] Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69.

[26] Case C-22/71, *Béguelin Import Co. v. S.A.G.L. Import Export*, [1971] ECR 949.

[27] Case C-35/83, *BAT Cigaretten-Fabriken GmbH v. Commission of the European Communities*, [1985] ECR 363.

the TFEU]. Such agreements serve, normally, to delimit, in the mutual interest of the parties, the spheres within which their respective trademarks may be used and are intended to avoid confusion or conflict between them.[28] In particular, in the above-mentioned decision, the Court made it clear that the so-called delimitation agreements are both lawful and useful from the perspective of EC (now EU) competition law.[29] However, the Court stressed also that such agreements are prohibited by Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU] if they also have the aim of dividing up the market or restricting competition in other ways.[30] According to the *BAT v. Commission* judgment, a "delimitation agreement" is particularly incompatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU] where the agreement in question aims, *inter alia*, at preventing the marketing of a trademarked product in a Member State.[31]

In conclusion, in the light of the TFEU, reliance on the right to the trademark in order to prevent parallel imports is normally incompatible with Article 101 (1) of the TFEU. In addition, on the basis of the decision in *BAT v. Commission*, in order for a "delimitation agreement" between trademark proprietors not to be considered to have the aim of dividing up the market or restricting competition in other ways under Article 101 (1) of the TFEU, the following elements must be found in that agreement:

a) the subject of the agreement must be the delimitation of the spheres within which the trademarks of the parties may be used;
b) the agreement must be intended to avoid confusion or conflict between the trademarks of the parties; and
c) the conclusion of the agreement must be in the interests of all the parties.[32]

Instead, for a "delimitation agreement" between trademark proprietors to be considered as prohibited by Article 101 (1) of the TFEU, it is necessary, according to the *BAT v. Commission* decision, to be demonstrated that the agreement in question aims, *inter alia*, at dividing up the EU's internal market or restricting competition in other ways. This will be the case, especially, when the "delimitation agreement" imposes obligations and disadvantages only on one of its parties, while, at the same time, those obligations and disadvantages practically serve to control the circulation of a trademarked product between EU Member States and not to protect the economic value of the trademark of the other party.[33]

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[28] Case C-35/83, n. 27 above, para. 33.

[29] Case C-35/83, n. 27 above, para. 33.

[30] Case C-35/83, n. 27 above, para. 33.

[31] Case C-35/83, n. 27 above, in particular para. 36.

[32] Case C-35/83, n. 27 above, para. 33, paras 34–38, a contrario.

[33] Case C-35/83, n. 27 above, paras 34–38. On the issue of the legality of "delimitation agreements" between trademark proprietors under EC (now EU) competition law, see Grigoriadis (2006), pp. 165–171; Hendry (1986); Schluep (1985); Schwanhäusser (1985); Waelbroeck (1985).

7.2.3 Assessing the Legality of Parallel Imports of Trademarked Goods in the Light of Article 86 of the EEC Treaty (Now Article 102 of the TFEU)

As for Article 86 of the EEC Treaty (now Article 102 of the TFEU), the ECJ pointed out that its application to cases concerning the legality of parallel imports of trademarked goods is conditional on the existence of a dominant position held by an undertaking within the common market or a substantial part of it, an abuse of that position, and the existence of a possibility of trade between Member States being impaired.[34] In assessing the legality of preventing parallel imports of goods covered by trademark rights or other intellectual property rights under Article 86 of the EEC Treaty (now Article 102 of the TFEU), the ECJ focused especially on the first and the second of the aforementioned conditions.

As regards the question of whether the exercise of a trademark right in order to prevent parallel imports is capable of being identified as a manifestation of the dominant position held by an undertaking, the case law of the ECJ is consistent with the views that the ECJ expressed with regard to the legality of the exercise of the trademark right in the light of Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU]. In particular, in the *Sirena v. Eda*[35] and *EMI Records v. CBS United Kingdom*[36] decisions, the ECJ held that although a trademark right confers upon its proprietor a special position within the territory of a Member State, this does not imply that the proprietor of the trademark holds a dominant position within the meaning of Article 86 of the EEC Treaty (now Article 102 of the TFEU) merely because he is in a position to prevent third parties from putting into circulation, on that territory, products bearing the same trademark.[37] For such a position to be identified, it is also necessary that the trademark proprietor has power to impede the maintenance of effective competition over a considerable part of the relevant market, having regard, in particular, to the existence and position of any producers or distributors who may be marketing similar goods or goods that may be substituted for them.[38] However, such a position cannot be identified, in particular, where several undertakings whose economic strength is comparable to that of the trademark proprietor operate in the market for the goods in question and are in a position to compete with the trademark proprietor.[39]

[34] Case C-40/70, n. 25 above, para. 15; Cf. also Johannes (1976), p. 20.

[35] Case C-40/70, n. 25 above.

[36] Case C-51/75, *EMI Records Limited v. CBS United Kingdom Limited*, [1976] ECR 811.

[37] Case C-40/70, n. 25 above, para. 16; Case C-51/75, n. 36 above, para. 36. Cf. also Case C-78/70, n. 22 above, para. 16 (in relation to a right related to copyright).

[38] Case C-40/70, n. 25 above, para. 16. Cf. also Case C-78/70, n. 22 above, para. 17 (in relation to a right related to copyright).

[39] Case C-40/70, n. 25 above, para. 16; Case C-51/75, n. 36 above, para. 36. Cf. also Case C-78/70, n. 22 above, para. 17 (in relation to a right related to copyright).

As regards the question of whether the exercise of a trademark right for the purpose of preventing parallel imports is capable of being identified as abuse of the dominant position held by an undertaking, it is observed that the Court accepted in the *EMI Records v. CBS United Kingdom* decision that in so far as the exercise of a trademark right is intended to prevent the importation into a Member State of products bearing an identical trademark, it does not constitute an abuse of a dominant position within the meaning of Article 86 of the EEC Treaty (now Article 102 of the TFEU).[40] However, the ECJ did not rule out the possibility of identifying special circumstances that make the exercise of a trademark right with the intention of excluding a parallel importation abusive within the meaning of Article 86 of the EEC Treaty (now Article 102 of the TFEU). In particular, according to the *Sirena v. Eda* decision, although the price level of a trademarked product may not in itself necessarily suffice to disclose an abuse of the dominant position held by an undertaking that relies on its trademark right with a view to prohibiting a parallel importation, it may nevertheless, if unjustified by any objective criteria and if it is particularly high, be a determining factor in such abuse.[41] Moreover, in the light of the *Deutsche Grammophon v. Metro SB* decision, the difference between the controlled price (price set by the authorised sellers) of a trademarked product and the price of the same product reimported in parallel from another Member State does not necessarily suffice to disclose an abuse of the dominant position held by an undertaking that seeks to prevent a parallel importation by invoking its trademark right. However, it may, if unjustified by any objective criteria and if it is particularly marked, be a determining factor in such abuse.[42]

In conclusion, in the light of the TFEU, the fact that a trademark right may be relied on by an undertaking (trademark proprietor, exclusive trademark licensee, or exclusive distributor) in order to prevent a parallel importation does not imply that the previously mentioned undertaking holds a dominant position within the EU's internal market or a substantial part of it within the meaning of Article 102 of the TFEU. Moreover, the fact that a trademark right may be relied on by an undertaking (trademark proprietor, exclusive trademark licensee, or exclusive distributor) for the purpose of preventing a parallel importation does not imply that the undertaking in question abuses its dominant position within the meaning of Article 102 of the TFEU. Only under special circumstances is the prevention of parallel trade by reference to trademark protection to be considered abuse of the dominant position that an undertaking (trademark proprietor, exclusive trademark licensee, or exclusive distributor) has within the EU's internal market or a substantial part of it within the meaning of Article 102 of the TFEU.

[40] Case C-51/75, n. 36 above, para. 37.

[41] Case C-40/70, n. 25 above, para. 17.

[42] Cf. also Case C-78/70, n. 22 above, para. 19 (in relation to a right related to copyright).

7.2.4 *Assessing the Contribution of Articles 85 and 86 of the EEC Treaty (Now Articles 101 and 102 of the TFEU) to Solving the Problem of the Legality of Parallel Imports of Trademarked Goods: Giving Preference to Articles 30 and 36 of the EEC Treaty (Now Articles 34 and 36 of the TFEU)*

As noted, the rules of the EEC Treaty (now TFEU) pertaining to the protection of free competition were used by the Court in approaching the issue of the legality of parallel imports of trademarked goods until the early 1970s. However, in the subsequent case law of the ECJ, the reasoning of the decisions concerning that issue is based not any more on Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) but on the free movement provisions of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).[43] This change was probably due to the ECJ's awareness of the failure of Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) to offer an overall solution to the above-mentioned issue.[44]

The failure of Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) to offer an overall solution to the problem of the legality of parallel imports was due to the specific conditions that must be met in order for those Articles to be applicable to cases concerning the legality of prohibiting parallel imports. In particular, Article 85 of the EEC Treaty (now Article 101 of the TFEU) could apply only to parallel import prohibitions based on contractual clauses that provided absolute territorial protection to trademark licensees or exclusive distributors or, in other words, aimed at eliminating intra-brand competition. It could not apply to parallel import prohibitions based merely on the territorial protection of trademark rights, which allowed the same person or persons that were economically or legally linked to hold identical trademarks in more than one Member State simultaneously. Article 85 of the EEC Treaty (now Article 101 of the TFEU) could apply, that is to say, only to cases where the prohibition of a parallel importation was sought on the basis of an exclusive distribution contract or trademark licence. It could not apply to cases where unilateral prohibitions of parallel imports by trademark proprietors, exclusive trademark licensees, or exclusive distributors were at issue. Also, as for Article 86 of the EEC Treaty (now Article 102 of the TFEU), its application to any case concerning the legality of preventing a parallel importation conflicted with the observation that reliance on a

[43] See Hefermehl and Fezer (1979), pp. 65–76; Mulch (2001), p. 46.

[44] According to another explanation, which is equally convincing, it was not until the early 1970s that the Court began to decide on parallel imports of trademarked goods cases in the light of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), because the prohibition of measures equivalent in effect to quantitative restrictions did not become effective until the end of the transitional period on 31.12.1969. See Oliver (2003), p. 322, para. 8.174; also Keeling (2003), p. 80.

trademark right by an undertaking in order to prohibit a parallel importation did not imply that the undertaking had dominant position within the common market or a substantial part of it within the meaning of the above-mentioned Article or the undertaking abused its dominant position within the meaning of the above-mentioned Article.

The obvious failure of Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) to offer an overall solution to the problem of the legality of parallel imports of trademarked goods led the Court to search for solutions in the rules on free movement of goods of the EEC Treaty, in particular in Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU). The aforementioned Articles had the serious disadvantage that they could not apply to cases concerning the legality of preventing parallel imports from third countries (outside the Community), contrary to Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU), which could apply to such cases.[45] That disadvantage forced the ECJ to continue to apply Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) to cases involving the legality of prohibiting parallel imports from third countries (outside the Community) to Member States. Respectively, in the light of the TFEU, its Articles 101 and 102 are the only TFEU articles applicable to cases involving the legality of prohibiting parallel imports from third countries (outside the European Union) to Member States. However, the legality of preventing intra-Community parallel trade of trademarked goods in cases referred to the ECJ by national courts began to be examined from the early 1970s exclusively in the light of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).

Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) had the advantage that they corresponded to the nature of the problem of the legality of parallel imports as a problem arising from the conflict between the principle of free movement of goods and the principle of territoriality of trademark rights. Indeed, the problem of the legality of parallel imports was caused not by the behaviour of undertakings itself but by an inherent conflict between two principles, one of which was based on the EEC Treaty (principle of the free movement of goods) and the other one on the national laws of the Member States (principle of territoriality of trademark rights). The fact that trademark rights were invoked by undertakings (trademark proprietors, exclusive distributors, or exclusive trademark licensees) in order to prohibit parallel imports did not alter the nature of the problem of the legality of parallel imports as a problem arising from the conflict between an EC principle and a national principle. Therefore, the problem in question could be more

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[45] Cf. Case C-51/75, n. 36 above, paras 8–10, where the Court held that Article 30 et. seq. of the EEC Treaty (now Article 34 et. seq. of the TFEU) did not apply to cases involving trade between third countries (outside the Community) and Member States. For the extraterritorial application of EC (now EU) competition rules, see Case C-22/71, *Béguelin Import Co. v. S.A.G.L. Import Export*, [1971] ECR 949 and Joined Cases C-89, 104, 114, 116, 117 and 125–129/85, *A. Ahlström Osakeyhtiö and others v. Commission of the European Communities*, [1988] ECR 5193, paras 12–18, in particular 16–18.

effectively dealt with in the light of the rules of the EEC Treaty, which aimed at the protection of the goal of the common market against national rules that could impede intra-Community trade.

7.3 The ECJ's Case Law: Second Approach—Assessing the Legality of Parallel Imports of Trademarked Goods in the Light of the Rules on Free Movement of Goods of the EEC Treaty (Now TFEU)

7.3.1 The Application of Articles 30 and 36 of the EEC Treaty (Now Articles 34 and 36 of the TFEU) in the Field of Industrial Property: A General Outline

According to Article 30 of the EEC Treaty (now Article 34 of the TFEU), the merging of the national markets of the EC Member States into one single and common market was to be pursued through the prohibition of the establishment or the maintaining in force of quantitative restrictions on the import and export of goods and all other measures having equivalent effect in trade between Member States. Article 30 of the EEC Treaty (now Article 34 of the TFEU) covered any importation on the condition that it was carried out between Member States.[46]

The provision of Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) introduced an exemption to the rule of Article 30 of the EEC Treaty (now Article 34 of the TFEU), namely it allowed quantitative restrictions on the import and export of goods or other measures having equivalent effect in trade between Member States to be established or maintained in force, provided that it was necessary to protect some goods of paramount importance, including industrial and commercial property.[47] However, quantitative restrictions or other measures having equivalent effect whose establishment or maintaining in force was, in principle, justified under the provision of Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) were not allowed to constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

[46] Article 30 of the EEC Treaty (now Article 34 of the TFEU) did not apply to imports carried out between third countries (outside the Community) and Member States. See Hefermehl and Fezer (1979), p. 28.

[47] The fact that industrial property rights were among the goods provided for in Article 36 of the EEC Treaty (now Article 36 of the TFEU) left no room for doubts about the fact that Article 30 of the EEC Treaty (now Article 34 of the TFEU) applied in the field of industrial property, despite the fact that industrial property rights are private rights, while Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) were addressed to the Member States. Cf. Johannes (1976), p. 28.

For many years, the question as to the effect of Article 36 of the EEC Treaty (now Article 36 of the TFEU) on the problem of the legality of parallel trade in products covered by industrial property rights remained unresolved in academic circles. In particular, in the first years of application of Community law, the dominant view was that the inclusion of industrial property in the goods of paramount importance that justified the establishment or the maintaining in force of quantitative restrictions on the import and export of goods or other measures having equivalent effect in trade between Member States meant that the EEC Treaty produced no effects on industrial property rights, as the content of those rights was determined by the Member States' national laws.[48] Based on this view, it was further supported that the conditions for protection and the limits of protection of industrial property were matters exclusively for the Member States, and, consequently, the free movement of goods provisions of the EEC Treaty did not apply at all to industrial property rights.

In contrast to legal literature, the ECJ always considered it obvious that Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), as well as Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU), applied in the field of industrial property. Specifically, the approach adopted by the ECJ in relation to the question of whether and to what extent Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) applied to industrial property rights was reflected in a number of judgments issued by the Court in the late 1970s and early 1980s in the following terms:

> As a result of the provisions of the Treaty relating to the free movement of goods, and in particular Article 30 [of the EEC Treaty, now Article 34 of the TFEU], quantitative restrictions on imports and all measures having equivalent effect are prohibited between Member States. Under Article 36 [of the EEC Treaty, now Article 36 of the TFEU] those provisions nevertheless do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property. However, it is clear from that same Article, in particular its second sentence, as well as from the context, that whilst the Treaty does not affect the existence of rights recognized by the laws of a Member State in matters of industrial and commercial property the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions contained in the Treaty. Inasmuch as it creates an exemption to one of the fundamental principles of the common market, Article in fact admits of exceptions to the rules on the free movement of goods only to the extent to which such exemptions are justified for the purpose of safeguarding the rights which constitute the specific subject-matter of that property.[49]

[48] See Gotzen (1958), p. 225; Schrans (1964), p. 629.

[49] Case C-192/73, *Van Zuylen frères v. Hag AG*, [1974] ECR 731, paras 8 and 9; Case C-15/74, *Centrafarm BV and Adriaan de Peijper v. Sterling Drug Inc*, [1974] ECR 1147, paras 7 and 8; Case C-16/74, *Centrafarm BV and Adriaan de Peijper v. Winthrop BV*, [1974] ECR 1183, paras 6 and 7; Case C-119/75, *Terrapin (Overseas) Ltd. v. Terranova Industrie CA Kapferer & Co*, [1976] ECR 1039, para. 5; Case C-102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR 1139, para. 6; Case C-3/78, *Centrafarm BV v. American Home Products Corporation*, [1978] ECR 1823, paras 7–10; Case C-1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, [1981] ECR 2913, para. 6.

According to the foregoing findings, the introduction of an exemption to the rule prohibiting quantitative restrictions on the import and export of goods and all other measures having equivalent effect in trade between Member States (Article 30 of the EEC Treaty and now Article 34 of the TFEU) on grounds of protection of industrial and commercial property (Article 36, subparagraph 1 of the EEC Treaty, now Article 36, subparagraph 1 of the TFEU) indicated, in the view of the Court, mainly two things: firstly, that the authors of the EEC Treaty were aware of the fact that the strict territorial nature of the exclusive and absolute protection of national industrial property rights could raise barriers to intra-Community trade and, secondly, that the EEC Treaty tolerated such barriers to the extent that the latter were justified for the protection of industrial and commercial property. However, it follows from the foregoing findings, in addition, that, in the view of the Court, Article 36 of the EEC Treaty (now Article 36 of the TFEU) did not exclude industrial property rights from the scope of the EEC Treaty. Instead, those rights were covered by the scope of the EEC Treaty as falling under the concept of "measures having equivalent effect" within the meaning of Article 30 of the EEC Treaty (now Article 34 of the TFEU), which were in principle prohibited by the latter Article and only exceptionally could be justified under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU).[50]

As already noted, at the heart of the conflict between the territorial protection of trademark rights and the free movement provision of Article 30 of the EEC Treaty (now Article 34 of the TFEU) was the problem of the legality of parallel imports. As also noted, the Court dealt with that problem in the light of a series of doctrines and, specifically, in the light of the doctrine of "exercise/existence of the right", the doctrine of "common origin", the doctrine of "specific subject matter of the right", the doctrine of "essential function of the right" and, finally, the doctrine of "Community-wide exhaustion of rights".[51] Thereafter, in this section, an analysis of the aforementioned doctrines in the light of the case law developed by the Court on the legality of parallel imports of trademarked products will be attempted.

7.3.2 *The Doctrine of "Exercise/Existence of the Right"*

The first doctrine created by the ECJ in an attempt to resolve the conflict between the fundamental principle of free movement of goods and the territoriality of industrial property rights was the doctrine of "exercise/existence of the right".[52]

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[50] Cf., in relation to trademark rights, Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, para. 13.

[51] See *supra* Sect. 7.1.

[52] See, in general, Ebenroth and Hübschle (1994b); Friden (1989); and, especially in relation to trademark rights, Axster (1980).

The doctrine of exercise/existence of the right ("Lehre von Bestand und Ausübung" in German) was first used by the ECJ in the *Consten and Grundig v. Commission of the EEC* judgment. Specifically, in response to an argument put forward by the applicant, the Court noticed that the Commission's decision "does not affect the granting of [trademark rights] but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU]".[53]

The position that the existence of (national) industrial property rights is not affected by Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU) while the exercise of those rights is subject to the prohibitions laid down in the aforementioned Articles was reaffirmed in *Parke, Davis & Co. v. Probel and others*[54] and *Sirena v. Eda*.[55] Indeed, it is noteworthy that, in the second of the aforementioned judgments, although the doctrine of exercise/existence of the right was used in applying EC competition rules, Article 36 of the EEC Treaty (now Article 36 of the TFEU) was nevertheless recognised as the foundation of the doctrine in question.

In the *Deutsche Grammophon v. Metro SB* decision, the Court applied the doctrine under consideration in the light of the rules on the free movement of goods. According to the text of the above-mentioned decision, it is clear from Article 36 of the EEC Treaty (now Article 36 of the TFEU) that "although the Treaty does not affect the existence of rights recognized by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty".[56]

During the 1970s and early 1980s, the doctrine under consideration was invoked by the Court in many judgments concerning the legality of exercising industrial property rights under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) and also under Articles 85 and 86 of the EEC Treaty (now Articles 101 and 102 of the TFEU). As a foundation of the doctrine in question was mentioned Article 36 of the EEC Treaty and not Article 222 of the EEC Treaty (now Article 345 of the TFEU), which is referred to only in the *Consten and Grundig v. Commission of the EEC* judgment.

According to the doctrine of exercise/existence of the right, the EEC Treaty (now the TFEU) guarantees the existence of an (national) industrial property right, but the exercise of the right is subject to the prohibitions laid down in the EEC Treaty (now the TFEU). In other words, the EEC Treaty (now the TFEU) does not affect the existence of an (national) industrial property right, but the exercise of the right may be limited by Articles 30, 85, and 86 of the EEC Treaty (now Articles 34, 101, and 102 of the TFEU).

[53] See Joined Cases C-56/64 and C-58/64, n. 14 above, p. 394 in the German version; also *supra* Sect. 7.2.1.

[54] Case C-24/67, n. 22 above, p. 112, in the German version.

[55] Case C-40/70, n. 25 above, para. 5.

[56] Case C-78/70, n. 22 above, para. 11.

However, the dichotomy between the existence of industrial property rights and their exercise as basis for resolving the conflict between Article 30 of the EEC Treaty (now Article 34 of the TFEU) and the territoriality of industrial property rights was not supported by legal doctrine. Instead, many authors criticised that dichotomy on the grounds that it is vague, artificial, unhelpful, and unworkable.[57]

Indeed, the main disadvantage of the distinction between the existence and the exercise of the right is that the distinction does not have any clear meaning in relation to intangible rights, including industrial property rights. In particular, if it can be said that a person's ownership of land cannot be disputed but that the law may limit his use of the land, the same statement, made in relation to an industrial property right, conveys much less meaning. This is because while in order to determine whether the holder of a property right is entitled to exercise his right in a specific way it suffices to refer to the legislation of the state where the right is protected, the determination of the rights of the holder of an industrial property right that may be limited without the existence of the right being affected is extremely difficult, if not impossible.[58] This is due to the fact that an industrial property right has no tangible existence and merely confers upon its holder a bundle of powers recognised in law, so that any restriction on the exercise of those powers amounts to limiting the existence of the industrial property right.[59] Besides, no safe criterion for distinguishing between the existence and the exercise of an industrial property right is deduced from the case law of the ECJ. Moreover, as rightly pointed out, when talking about the "existence" of an industrial property right, we refer not only to the recognition and the protection of the right as a legal entity but also to the powers stemming from the right, which are, however, also components of the "exercise" of the right.[60] Finally, any restriction on the exercise of an industrial property right in the light of Articles 30, 85, and 86 of the EEC Treaty (now Articles 34, 101, and 102 of the TFEU) implies the non-application of the relevant provisions of the Member States, i.e. an intervention in the "existence" of the right and, further, a relativisation of excluding the latter from the scope of the EEC Treaty (now the TFEU).[61]

On the basis of the foregoing, it can be said that the one useful element in the distinction between the existence and the exercise of the right is that it confirms a position that can be drawn already from the wording of Article 36 of the EEC Treaty (now Article 36 of the TFEU), namely that the Member States' national lawmakers are, in principle, free to decide on the industrial property rights to which

[57] See Beier (1989), p. 610; Beier (1990), p. 147; Casati (1978), p. 322; Derrick and Alan (1994), p. 574; Joliet and Keeling (1991), p. 314; Joliet (1975), p. 23; Korah (1972), p. 636; Korah (1994), p. 190; Liakopoulos (1981), pp. 259–260; Rothnie (1991), p. 28; Taliadouros (1987), p. 73; Tritton (1994), p. 423; Tritton (2002), p. 466, para. 7-013.

[58] Keeling (2003), p. 55.

[59] Keeling (2003), p. 55.

[60] Axster (1980), p. 596; Beier (1990), pp. 147–148; Beier (1989), pp. 609–610; Ebenroth and Hübschle (1994b), p. 109.

[61] Axster (1980), p. 596; Tritton (1994), p. 423.

they provide legal protection, on the formal and the substantive conditions for the protection of an industrial property right, and on how to protect an industrial property right, unless a relevant EC (now EU) provision, which is binding on the Member States, exists.[62] Especially in relation to trademark rights, the importance of the distinction between the existence and the exercise of the right, based on the current data, is that the distinction in question confirms the position that the regulation of the issues left open by Directive 2008/95/EC[63] (e.g., the protection of trademarks acquired through use, the term of protection of trademark rights) lies within the competence of the Member States and that restrictions on intra-Union trade resulting from the national regulation of issues left open by Directive 2008/95/EC are justified in the light of Article 36 of the TFEU. However, the failure to distinguish clearly between the "existence" and the "exercise" of industrial property rights seems to have been understood even by the ECJ itself. Indeed, the doctrine of exercise/existence of the right has not been referred to, expressly or by implication, in the ECJ's case law since the early 1990s, so that it can be said that it has quietly been abandoned by the Court.[64]

7.3.3 The Doctrine of "Specific Subject Matter of the Right"

7.3.3.1 The Decisions in *Deutsche Grammophon v. Metro SB* and *Centrafarm BV and others v. Winthorp BV*

The absence of a clear criterion for the concepts of "existence" and "exercise" of the right to be distinguished forced the ECJ, in order to determine whether prohibitions or restrictions on the free movement of goods between Member States for the sake of protecting industrial and commercial property are justified under Article

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[62] Cf. Case C-144/81, *Keurkoop BV v. Nancy Kean Gifts BV*, [1982] ECR 2853, paras 18–19; Case C-341/87, *EMI Electrola GmbH v. Patricia Im- und Export and others*, [1989] ECR 79, paras 10–12.

[63] Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (OJ L 299/25, of 08.11.2008).

[64] The doctrine of exercise/existence of the right has not been referred to, expressly or by implication, in any judgment after *CNL-SUCAL v. HAG* (Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG,* [1990] ECR I-3711). As typically noted by Advocate General Fenelly in his Opinion in Joined Cases C-267/95 and C-268/95, *Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v. Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v. Europharm of Worthing Ltd*, [1996] ECR I-6285, "The distinction between the 'existence' and the 'exercise' of rights can, at times, be quite unreal; it has not been referred to in recent case law, such as HAG II, and may now, at least in so far as the interpretation of Articles 30 to 36 of the Treaty is concerned, be discarded" (point 93).

36 of the EEC Treaty (now Article 36 of the TFEU), to establish a new doctrine, the doctrine of "specific subject matter of the right".[65]

The first time that the doctrine of specific subject matter of the right ("Lehre von dem spezifischen Gegenstand" in German) was used by the Court was in the *Deutsche Grammophon v. Metro SB* decision. In *Deutsche Grammophon v. Metro SB,* the issue in question was whether the exercise of a right related to copyright in order to prohibit the marketing in a Member State of products covered by that right that had been put on the market in another Member State by the right owner or with his consent was compatible with the EEC Treaty (now TFEU). The Court held that such an exercise is contrary to Article 36 of the EEC Treaty (now Article 36 of the TFEU) on the ground that it does not form part of the specific subject matter of industrial and commercial property. According to the relevant statements: "Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, Article 36 [of the EEC Treaty, now Article 36 of the TFEU] only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property".[66]

As regards trademark rights, the doctrine of specific subject matter of the right was first used in the judgment in *Van Zuylen v. Hag AG*. However, as in the *Deutsche Grammophon v. Metro SB* decision, the Court did not determine the meaning of the specific subject matter of the trademark right in the judgment in *Van Zuylen v. Hag AG*, but it merely stated that derogations from the principle of free movement of goods are justified under Article 36 of the EEC Treaty (now Article 36 of the TFEU) only to the extent necessary to safeguard the rights that constitute the specific subject matter of commercial and industrial property.[67]

The specific subject matter of the trademark right was defined for the first time a few years later in the decision in *Centrafarm BV and others v. Winthorp BV*. According to the relevant excerpt: "In relation to trade marks, the specific subject-matter of the industrial property is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark".[68]

On the basis of the wording of the above definition, it is observed that the specific subject matter of the trademark right, protected under Article 36, subparagraph 1 of the EEC Treaty (Article 36, subparagraph 1 of the TFEU), includes, firstly, the right to affix the trademark to a good ("Kennzeichnungsrecht" in German) and, secondly, the right to put into circulation a good under the

[65] See, in general, Taucher (1995).

[66] Case C-78/70, n. 22 above, para. 11.

[67] Case C-192/73, n. 49 above, para. 9.

[68] Case C-16/74, n. 49 above, para. 8.

trademark for the first time ("Erstveräußerungsrecht" in German), which includes in particular the right to offer the good under the trademark for the first time, the right to put the good on the market under the trademark for the first time, and the right to stock the good under the trademark for the first time for these purposes.[69] Thus, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), the proprietor of a trademark in a Member State has the exclusive rights to affix the trademark to a good and to put a good into circulation under the trademark and also the right to oppose the use of the trademark by a third party for goods that have not been put on the market in another Member State by the proprietor or with his consent.

In order for a trademarked good to be subject to Article 30 of the EEC Treaty (now Article 34 of the TFEU), it is, therefore, required that the good has been exported from a Member State and, in addition, the affixing of the trademark borne by the good and the first putting into circulation of the good have been done by the trademark proprietor in the importing Member State or, as it was clarified in a subsequent decision of the ECJ,[70] with the consent of the aforementioned proprietor. On the other hand, the proprietor of a trademark in a Member State may, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), oppose the importation and sale of goods bearing the trademark in a Member State if the affixing of the trademark to the goods and the first putting on the market of the goods in another Member State were not done by the proprietor or with his consent. According to a subsequent Court's decision, indeed, the proprietor of a trademark in a Member State may, under Article 36 of the EEC Treaty (now Article 36 of the TFEU), prohibit the importation and sale of goods bearing the trademark also where the trademark has been re-affixed to the goods without the trademark proprietor's consent.[71] Thus, the specific subject matter of the trademark right includes not only the right to affix the trademark to a good for the first time but also the right to re-affix the trademark to a good.

The inclusion of the rights to affix a trademark to a good and to put into circulation a good under a trademark in the specific subject matter of the trademark right indicates the close connection between trademark protection in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU) and the origin function, namely the function that was recognised by the Member States' laws as the primary function of the trademark. The exercise of the above-mentioned rights serves,

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[69] Although the right to affix a trade mark to a good is not mentioned clearly in the definition of the specific subject-matter of the trade mark right set out in the decision in *Centrafarm BV and others v. Winthorp BV*, the fact that that right forms part of that subject-matter is based on the Court's statement that "the specific subject-matter of the trade mark right is intended to protect the trade mark proprietor against competitors wishing to take advantage of the status and reputation of the trade mark by selling products *illegally bearing* that trade mark" (emphasis added).

[70] Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789.

[71] Case C-102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR 1139.

actually, the origin function of the trademark, as through the putting into circulation of a good to which a trademark has been affixed, the link between the product and an undertaking is communicated to the public. Article 36 of the EEC Treaty (now Article 36 of the TFEU) is intended, therefore in the view of the ECJ, to guarantee primarily the origin function of the trademark.

However, in the definition of the specific subject matter of the trademark right set out in the *Centrafarm BV and others v. Winthorp BV* decision, reference is made also to the concepts of "status" and "reputation" of the trademark. In particular, in accordance with that definition, the protection of the specific subject matter of the trademark right includes also the protection of the proprietor of a trademark against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trademark. On the basis of this statement, the advertising function of the trademark is also an inherent part of the specific subject matter of the trademark right. Since the mid-1970s, the ECJ has then recognised the protection of the advertising function of the trademark in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU). However, the conditions for protection of the aforementioned function were clarified in subsequent decisions of the ECJ concerning the legality of parallel imports of pharmaceuticals and luxury products.[72] Besides, as it will be discussed further on in this chapter, it follows from the ECJ's case law on the legality of parallel imports of pharmaceutical products that the Court recognises also the protection of the guarantee function of the trademark, though not independently but within the context of the origin function of the trademark.[73]

In the *Centrafarm BV and others v. Winthorp BV* decision, the Court held, in addition, that the possibility of opposing the importation and marketing in a Member State of trademarked goods that were put on the market in another Member State by the trademark proprietor or with his consent does not fall within the specific subject matter of the trademark right.[74] The proprietor of a trademark in a Member State cannot, therefore, according to the ECJ's case law, prohibit the parallel importation of goods bearing the trademark that were put on the market in another Member State by him or with his consent.[75] This is because if it were permissible for trademark proprietors to exclude parallel imports, they would be able to partition off national markets and thereby restrict trade between Member States in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trademark.[76] The Court did not clarify its understanding of "essence of the exclusive right flowing from the trade

[72] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark".

[73] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark".

[74] Case C-16/74, n. 49 above, paras 9–12.

[75] Case C-16/74, n. 49 above, para. 11.

[76] Case C-16/74, n. 49 above, para. 11.

mark". However, according to a subsequent decision of the ECJ, the essence of the exclusive right flowing from the trademark is nothing other than the origin function of the trademark, which was defined as the trademark's function of guaranteeing the identity of the origin of the trademarked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products that have another origin.[77] In a subsequent decision of the Court, it was also explained when a trademarked good must be considered to have been put on the market with the consent of the trademark proprietor.[78]

So, in the light of the judgment in *Centrafarm BV and others v. Winthorp BV*, the doctrine of specific subject matter of the trademark right is aimed primarily at safeguarding the origin function of the trademark, i.e. the function of the trademark that was acknowledged as the primary function of the trademark by the national laws of the founding Member States of the Community. This conclusion is drawn, on one hand, from the inclusion of the rights to affix a trademark to a good and to put into circulation the trademarked good, namely of two rights whose exercise serve per excellence the origin function of the trademark, in the specific subject matter of the trademark right and, on the other hand, from the non-inclusion of the possibility of prohibiting intra-Community parallel trade in that subject matter on the ground that such a possibility is not necessary to safeguard the essence of the exclusive right flowing from the trademark, namely the origin function of the trademark.

7.3.3.2 The Specific Subject Matter of the Right as a Guarantee for the Protection of the Origin Function of the Trademark

Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark

As it was said earlier, the doctrine of specific subject matter of the trademark right is aimed primarily at safeguarding the origin function of the trademark. Highlighting the origin function of the trademark as the main justification for the creation of the doctrine of specific subject matter of the trademark right provided a strong incentive for the Court to specify the meaning of that function in its subsequent case law.

In the decision in *Hoffman-La Roche v. Centrafarm*, the Court did specify the meaning of the origin function of the trademark for the first time. In particular, in that decision, the "origin function" or, in the terms of the decision, the "essential function" of the trademark is defined as the function of the trademark "to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate

[77] Case C-102/77, n. 71 above, para. 7.

[78] In the decision in Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789. See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin".[79] Moreover, the Court pointed out that the essential function of the trademark means that the consumer or ultimate user can be certain that a trademarked product that is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trademark, such as to affect the original condition of the product.[80]

The above formulations suggest that the origin function of the trademark does not aim, in the Court's view, at indicating the place where the producer or the undertaking that marketed a trademarked product is established. Instead, it aims at ensuring the consumer or ultimate user of a trademarked product that the product has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the business entity under the control of which it was produced. Also, the above formulations allow us to argue that, in the Court's view, the origin function of the trademark should not be seen only as a means of guaranteeing the identity of the origin of a trademarked product to the consumer or ultimate user but also as a means of preventing any confusion of the consumer or ultimate user as to the identity of the business entity that is accountable for the quality and the other features of a product that was put on the market in a Member State.[81]

The formulations contained in the decision in *Hoffman-La Roche v. Centrafarm* with regard to the origin function of the trademark are supplemented by the formulations contained in the judgments in *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*. In particular, in the aforementioned judgments, the Court stated that trademark rights are an essential element in the system of undistorted competition that the Treaty [the TFEU] seeks to establish and maintain[82] and that, for the trademark to be able to fulfil its role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking that is accountable for their quality.[83]

In the decision in *IHT Internationale Heiztechnik v. Ideal-Standard*, the Court, indeed, named the cases in which it must be accepted that the production or manufacture of all products bearing a trademark that are put into circulation in the Community (now EU) has been carried out under the control of a single body. That body shall be, in particular, the group of undertakings when it comes to goods

[79] Case C-102/77, n. 71 above, para. 7.

[80] Case C-102/77, n. 71 above, para. 7.

[81] See also Ebenroth and Rapp (1991), p. 371; Fezer (2009), § 24 MarkenG, pp. 1676–1677, Nr. 143.

[82] Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG,* [1990] ECR I-3711, para. 13; Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, para. 45.

[83] Case C-10/89, n. 82 above, para. 13; Case C-9/93, n. 82 above, para. 37. Although the Court referred only to quality, the entity under the control of which a good has been produced is, of course, accountable also for the other characteristics of the good.

that have been put on the market by the parent or a subsidiary undertaking of the group, the licensor when it comes to goods that have been put on the market by a trademark licensee, and the producer when it comes to products that have been put on the market by an authorised (exclusive or selected) distributor. It is obvious that, according to the decision in *IHT Internationale Heiztechnik v. Ideal-Standard,* a trademarked product must be considered to have been put on the market with the consent of the trademark proprietor, as an irrefutable presumption, in cases where the product has been put on the market by an undertaking belonging to the same group as the trademark proprietor or when the product has been put on the market by a trademark licensee or in cases where the product has been put on the market by an authorised (exclusive or selected) distributor. In all the aforementioned cases, as in cases where the trademarked product has been put on the market by the trademark proprietor himself, the trademark proprietor cannot prohibit the importation and resale of the product in a Member State by an independent trader, namely the trademark proprietor cannot prohibit the parallel importation of the product, precisely because such an importation does not jeopardise the origin function of the product's trademark. It is also worth mentioning that, in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgment, the ECJ ruled out, in the light of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), the possibility of a trademark proprietor-exclusive distributor or a trademark proprietor-subsidiary undertaking prohibiting parallel imports concerning products put on the market by the trademark proprietor-manufacturer or the trademark proprietor-parent undertaking, respectively, or with the consent of the latter. The consent of the trademark proprietor-manufacturer or the trademark proprietor-parent undertaking applies, that is to say concurrently, as an irrefutable presumption, as consent of the trademark proprietor-exclusive distributor or the trademark proprietor-subsidiary undertaking, respectively. This Court's position expresses the idea that a trademark proprietor-exclusive distributor or a trademark proprietor-subsidiary undertaking cannot have, in relation to a trademarked good, more rights than the trademark proprietor-manufacturer or the trademark proprietor-parent undertaking, respectively, has in relation to the same good, taking into account, firstly, that there are especially close ties between the manufacturer and an exclusive distributor of him and between a subsidiary undertaking and its parent undertaking[84] and, secondly, that an exclusive distributor or a subsidiary undertaking has normally acquired its rights on the basis of a prior assignment by the manufacturer or by the parent

[84] The authorised distributor is characterised by a legal author as "an extension of the supplier's arm". See Ulmer (1969), p. 3; also Keeling (2003), p. 84, who observes that "the economic links between a manufacturer and a distributor of goods (especially an exclusive one) are so strong that, where the former assigns his trade mark or patent rights to the latter, the two are clearly involved in a joint enterprise to exploit intellectual property rights". The strong economic links between a parent undertaking and a subsidiary undertaking is rather obvious. Both undertakings coordinate their marketing policy in the common interest of the group to which they belong. Cf. Opinion of Advocate General Gulmann in Case C-9/93, n. 82 above, point 68.

undertaking, respectively, or an express or implied consent by the manufacturer or by the parent undertaking, respectively, to such registration.

In the light of the considerations included in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgment, indeed, a trademark proprietor (licensor) cannot oppose the parallel importation of goods that were manufactured and put on the market by a trademark licensee even if the quality (or other characteristics) of the goods is not geared to the instructions of the trademark proprietor. This is because the trademark proprietor can control the quality of the licensee's products by including in the contract (licensing agreement) clauses requiring the licensee to comply with his instructions and giving him the possibility of verifying such compliance.[85] Besides, it is irrelevant whether the trademark proprietor actually exercised control over the quality (or other characteristics) of the goods manufactured by the licensee. Instead, what is relevant is whether such control was possible. Thus, if the licensor tolerates the manufacture of poor quality goods, despite having contractual means of preventing it, he must bear the responsibility. That responsibility includes the non-possibility of preventing parallel imports of the aforementioned goods between Member States.[86]

Finally, also in the light of the considerations included in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgment, an undertaking-member of a group cannot invoke its trademark right to oppose the parallel importation of goods bearing its trademark that have been put on the market by another undertaking of the group on the ground that the quality (or other characteristics) of the goods is not geared to the particularities of the market of the Member State of importation. According to the Court, the group has to bear the consequences of its choice. Among those consequences, the possibility of parallel imports of goods that have been manufactured by the undertakings of the group but whose quality (or other characteristics) is not geared to the particularities of the market of the importing Member State is included.[87]

So in the light of the judgments in *Hoffman-La Roche v. Centrafarm*, *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*, safeguarding the origin function of the trademark aims at the protection of the interests not only of the trademark proprietor but also, indirectly, of consumers/end users of goods bearing the trademark. For the trademark proprietor, the meaning of the protection of the origin function consists in safeguarding that there is no chance for the proprietor in question to be considered accountable for the poor quality of a branded good that has neither been produced nor manufactured under his control. For the consumer/end user, the meaning of the protection of the origin function consists in enabling him to be certain that a trademarked good that is sold to him has not been subject at a previous stage of marketing to interference by a third person,

[85] Case C-9/93, n. 82 above, para. 37.

[86] Case C-9/93, n. 82 above, para. 38.

[87] Case C-9/93, n. 82 above, para. 38.

without the authorisation of the trademark proprietor, such as to affect the original condition of the good.

Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark

In its case law concerning the legality of parallel imports of pharmaceutical products, the Court identified some cases of parallel imports that may, in principle, be prohibited by trademark proprietors precisely because the products imported in parallel have been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trademark, such as to affect the original condition of the products, and therefore there exist, by definition, i.e. without there being any need to assess in each individual case the actual effects of the interference, a risk of the essential function of the trademark borne by the products and, by extension, the specific subject matter of the exclusive right flowing from the trademark borne by the products, protected under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), being adversely affected.

In the *Hoffman-La Roche v. Centrafarm* judgment, it was, as already mentioned, accepted that safeguarding the origin function of the trademark implies that the consumer or ultimate user can be certain that a trademarked product that is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trademark, such as to affect the original condition of the product.[88] Based on this statement, it was further accepted that "it is justified under the first sentence of Article 36 [of the EEC Treaty, now Article 36 of the TFEU] to recognize that the proprietor of a trade mark is entitled to prevent an importer of a trade-marked product, following repackaging of that product, from affixing the trade-mark to the new packaging without the authorization of the proprietor".[89] It follows from the latter excerpt, which, as noted below, covers not only trademarked pharmaceuticals but also any trademarked product,[90] that the specific subject matter of the trademark right includes also the right to re-affix a trademark ("Neu-Kennzeichnungsrecht" in German) to a product after the product has been repackaged. The re-affixing of the trademark under which a parallel imported product was put on the market after the product has been repacked in new packaging without the authorisation of the trademark proprietor (in the importing Member State) involves then, by definition, in the ECJ's view, a risk of the origin function of the trademark being adversely affected.

[88] Case C-102/77, n. 71 above, para. 7.

[89] Case C-102/77, n. 71 above, para. 8.

[90] See *infra* "Extension of the ECJ's Case Law Relating to the Legality of Parallel Imports of Trademarked Pharmaceutical Products to Any Trademarked Product".

Also, in the decision in *Centrafarm*, the Court citing the need to safeguard the origin function of the trademark,[91] which, in its view, would be jeopardised if it were permissible for a third party to affix the mark even to an original product,[92] held that "the proprietor of a trade-mark which is protected in one Member State is justified pursuant to the first sentence of Article 36 [of the EEC Treaty, now Article 36 of the TFEU] in preventing a product from being marketed by a third party in that Member State under the mark in question even if previously that product has been lawfully marketed in another Member State under another mark held in the latter state by the same proprietor".[93] The replacement of the trademark under which a parallel imported pharmaceutical product was put on the market with the trademark used for the authorised distribution of the same product in the importing Member State without the authorisation of the proprietor of the latter trademark involves then, also, by definition, in the ECJ's view, a risk of the origin function of the (latter) trademark being adversely affected.

Further, in the decision in *Pfizer v. Eurim Pharm*, the ECJ, based on the considerations contained in the *Hoffman-La Roche v. Centrafarm* decision in relation to the essential function of the trademark,[94] accepted that "Article 36 of the Treaty [now Article 36 of the TFEU] must be interpreted as meaning that the proprietor of a trade-mark right may not rely on that right in order to prevent an importer from marketing a pharmaceutical product manufactured in another Member State by the subsidiary of the proprietor and bearing the latter's trade mark with his consent, where the importer, in re-packaging the product, confined himself to replacing the external wrapping without touching the internal packaging and made the trade mark affixed by the manufacturer to the internal packaging visible through the new external wrapping, at the same time clearly indicating on the external wrapping that the product is manufactured by the subsidiary of the proprietor and re-packaged by the importer".[95] On the basis of the foregoing excerpt, the specific subject matter of the right flowing from the trademark borne by a pharmaceutical product is not likely to be adversely affected and, therefore, the proprietor of that trademark cannot prevent the parallel importation of the product in cases where the external packaging of the product has been replaced in order for the trademark affixed to the (original) inner packaging to become visible. This is because such a repackaging involves no risk of exposing the product to interference or influences that might affect its original condition, so that no risk of the origin function of the product's trademark being adversely affected arises.[96] Thus, the parallel

[91] Case C-3/78, *Centrafarm BV v. American Home Products Corporation*, [1978] ECR 1823, para. 12.

[92] Case C-3/78, n. 91 above, para. 14.

[93] Case C-3/78, n. 91 above, para. 18.

[94] Case C-1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, [1981] ECR 2913, para. 8.

[95] Case C-1/81, n. 94 above, para. 13.

[96] Case C-1/81, n. 94 above, paras 11–12. It is worth mentioning that the Court considered the fact that the parallel importer clearly indicated on the external wrapping of the parallel imported

importation at issue in the case in *Pfizer v. Eurim Pharm* was treated by the Court as a parallel importation concerning trademarked products that were not repackaged by a third party. However, as will be shown below, in its subsequent case law, the ECJ moved away from the foregoing approach by treating in the same way, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), the case of repackaging a parallel imported pharmaceutical product with re-affixing the trademark under which the product was put on the market and the case of repackaging a parallel imported pharmaceutical product without re-affixing the trademark under which the product was put on the market.

The cases of parallel imports of pharmaceutical products in which a risk of the origin function of the trademark and, therefore, of the specific subject matter of the trademark right being impaired arises by definition crystallised, in the light of both Article 36 of the EEC Treaty (now Article 36 of the TFEU) and Article 7 (2) of Directive 89/104/EEC (now Article 7 paragraph 2 of Directive 2008/95/EC), in subsequent decisions of the ECJ on the legality of parallel imports of pharmaceutical products (issued after the adoption of Directive 89/104/EEC).[97] In particular, in the aforementioned decisions, the Court confirmed that re-affixing the trademark under which a parallel imported pharmaceutical product was put on the market to the product after the original internal or external packaging of the product has been replaced without the authorisation of the trademark proprietor involves, by definition, a risk of the origin function of that trademark being adversely affected.[98] Moreover, in one of the aforesaid decisions, it was stated that "there is no reason in principle to distinguish between the situation where a third party reaffixes the trade mark after repackaging the product, and the situation where, after the product has been repackaged, he uses the trade mark affixed to the original packaging by the manufacturer by leaving it visible through new external packaging or by retaining the original external packaging itself".[99] By the foregoing statement, the Court moved away from the distinction between repackaging a parallel imported trademarked pharmaceutical product with re-affixing the trademark to the product and repackaging a parallel imported trademarked pharmaceutical product in order for the trademark affixed to the original packaging of the product to become visible, which had been accepted in the decision in *Pfizer v. Eurim Pharm*. According to the

products that the products had been manufactured by a subsidiary of the trademark proprietor and had been repackaged by the importer as an additional guarantee that there was no risk of the essential function of the trademark affixed to the products being jeopardised (para. 11).

[97] Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3671; Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, [1996] ECR I-3603; Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457.

[98] Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 49; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 36; Case C-232/94, n. 97 above, para. 22.

[99] Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 38.

recent case law of the ECJ, both the repackaging with re-affixing and the repackaging without re-affixing of the trademark under which a pharmaceutical product imported in parallel was put on the market are considered to jeopardise, by definition, the essential function of the trademark and, therefore, may be prohibited by the trademark proprietor (in the Member State of importation) if done without his authorisation.

Finally, in its most recent case law on the legality of parallel imports of pharmaceutical products,[100] the Court confirmed, in the light of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], the positions expressed in its previous case law, namely, firstly, that the repackaging of trademarked pharmaceutical products (with or without re-affixing the products' trademark) in itself is prejudicial to the specific subject matter of the trademark right, without there being necessary in each individual case to assess the actual effects of the repackaging by the parallel importer,[101] and, secondly, that the specific subject matter of the trademark right allows the trademark proprietor to oppose the parallel importation of a pharmaceutical product where the trademark under which the product was put on the market has been replaced, without the authorisation of the trademark proprietor, by the trademark used for the authorised distribution of the same product in the Member State of importation.[102] Moreover, in one of the decisions included in the above-mentioned case law, the Court considered the affixing of a new label to the original (external or internal) packaging of a pharmaceutical product imported in parallel while leaving intact the trademark affixed to that packaging without the authorisation of the trademark proprietor as a case of repackaging a trademarked pharmaceutical product imported in parallel involving a risk of the specific subject matter of the trademark right being impaired without there being any need to assess in each individual case the actual effects of the affixing of a new label by the parallel importer.[103] In the light of this assessment, some other forms of intervention on the original condition of trademarked pharmaceutical products imported in parallel which, according to the ECJ's case law, are of the same gravity as sticking a new label on the original packaging of pharmaceutical products imported in parallel must also be considered in themselves to be prejudicial to the specific subject matter of the trademark right without there being any need to assess in each individual case their actual effects. In particular, the Court judged that adding new user instructions or information in the

[100] Case C-379/97, *Pharmacia & Upjohn SA v. Paranova A/S*, [1999] ECR I-6927; Case C-443/99, *Merck, Sharp & Dohme GmbH v. Paranova Pharmazeutika Handels GmbH*, [2002] ECR I-3703; Case C-143/00, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co. v. Swingward Ltd and Dowelhurst Ltd,* [2002] ECR I-3759; Case C-348/04, *Boehringer Ingelheim KG and Others v. Swingward Ltd and Dowelhurst Ltd*, [2007] ECR I-3391.

[101] Case C-443/99, n. 100 above, para. 23; Case C-143/00, n. 100 above, para. 30.

[102] Case C-379/97, n. 100 above, para. 21.

[103] Case C-348/04, n. 100 above, paras 29 and 30.

language of the Member State of importation to the packaging or replacing of the accompanying product included in the packaging of a trademarked pharmaceutical product imported in parallel must be considered to be of the same gravity as affixing a new label to the original packaging of such a product in assessing the legality of prohibiting parallel imports of trademarked pharmaceutical products.[104]

In the light of the ECJ's case law, therefore, interventions on the original condition of trademarked pharmaceutical products imported in parallel involving, by definition, i.e. without there being any need to assess in each individual case their actual effects, a risk of the essential function of the trademark and, by extension, of the specific subject matter of the trademark right, protected under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), being adversely affected mean, firstly, the repackaging of the products with or without re-affixing the trademark under which the products were put on the market without the authorisation of the trademark proprietor, which includes the replacement of the original external or internal packaging of the products, the alteration of the contents or the appearance of the original external packaging of the products, the affixing of a new label to the original external or internal packaging of the products, the addition of new user instructions or information in the language of the Member State of importation to the packaging of the products, and the replacement of the accompanying product included in the packaging of the products, and, secondly, the replacement of the trademark under which the products were put on the market with the trademark used for the authorised distribution of the same products in the Member State of importation.

Extension of the ECJ's Case Law Relating to the Legality of Parallel Imports of Trademarked Pharmaceutical Products to Any Trademarked Product

The statements made by the ECJ in decisions relating to the legality of parallel imports of trademarked pharmaceutical products are applicable, in principle, to any trademarked product. This position was confirmed by the ECJ in its decision in the *Loendersloot v. Ballantine* case,[105] where the dispute concerned the legality of parallel imports of alcoholic drinks, after labels bearing the trademark that the trademark proprietor seeking to prohibit the parallel importation had affixed to the products in question were removed and then re-affixed or replaced, without the authorisation of the trademark proprietor. According to the considerations made by the Court, the principles laid down in decisions on parallel imports of pharmaceutical products apply to each case where a trademarked product "has been subject to interference by a third party, without the authorization of the trade mark proprietor, which is liable to impair the guarantee of origin provided by the trade mark".[106]

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[104] Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 55; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 45; Case C-232/94, n. 97 above, para. 27.

[105] Case C-349/95, *Frits Loendersloot v. George Ballantine & Son Ltd etc.*, [1997] ECR I-6227.

[106] Case C-349/95, n. 105 above, paras 26–27.

7.3.3.3 The Provision of Article 36, Subparagraph 2 of the EEC Treaty (Now Article 36 of the TFEU)

According to Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU), quantitative restrictions on the import and export of goods or other measures having equivalent effect in trade among Member States whose establishment or maintaining in force was, in principle, justified under the provision of Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) were not allowed to constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

The scope of the provision of Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) would be expected to have been limited, especially in the field of industrial and commercial property, given that owners of intellectual property rights were allowed to restrict free movement of goods between Member States, under Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU), only to the extent necessary to protect the specific subject matter of those rights.[107] Indeed, Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) would have been of low relevance for intellectual property rights if the Court had adopted an absolutely rigorous approach in applying the doctrine of specific subject matter of the right. In such a case, a form of use of an intellectual property right constituting a means of arbitrary discrimination or a disguised restriction on trade between Member States would be incompatible with the EEC Treaty (now TFEU) already under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) because such a use could not come within the specific subject matter of the right.

Despite the foregoing considerations, it follows from the ECJ's case law on the legality of parallel imports of trademarked pharmaceutical products that the provision of Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) took on major importance for determining whether the use of the trademarks borne by parallel imported pharmaceutical products in cases involving, according to the above-mentioned case law, a risk of the origin function of the trademark and, by extension, the specific subject matter of the trademark being impaired is finally incompatible with Community (now EU) law.

Thus, in relation to the replacement of the packaging of pharmaceutical products, the ECJ acknowledged that such a practice may be necessary for the parallel importation of such products "by reason, in particular, of a rule authorizing packaging only of a certain size or a national practice to the same effect, sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging, or well-established medical prescription practices based, *inter alia*, on standard sizes recommended by professional groups and sickness insurance

[107] Cf. Fezer (2009), § 24 MarkenG, p. 1687, Nr. 172.

institutions".[108] The ECJ acknowledged, therefore, expressly the possibility of the application of a practice that, in principle, involves a risk of the essential function of the trademark borne by a parallel imported pharmaceutical product being jeopardised constituting, at the same time, a de jure or de facto condition for carrying out the parallel importation. Having regard to such a possibility, it further stated that the proprietor of a trademark cannot oppose the parallel import of pharmaceutical products bearing the trademark after the products have been repackaged or the trademark under which the products were put on the market has been replaced by the trademark used for the authorised distribution of the same products in the importing Member State if the exercise of the exclusive right flowing from the trademark with the intention of prohibiting such an import constitutes a disguised restriction on trade between Member States within the meaning of Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU). According to the ECJ's case law, this is the case when it is demonstrated that the exercise of the trademark right contributes to the artificial partitioning of the markets between Member States and, moreover, in cases involving the repackaging of parallel imported pharmaceutical products, that the legitimate interests of the trademark owner are observed, namely it is ensured in particular that the repackaging does not affect the original condition of the product inside the packaging, and that the affixing of the trademark to the new packaging of the products is not done in such a way that it may damage the reputation of the trademark and its owner.[109]

In particular, in *Hoffman-La Roche v. Centrafarm*, the Court accepted that it comes within the specific subject matter of the trademark right, protected under Article 36 of the EEC Treaty (now Article 36 of the TFEU), that the proprietor of a trademark prohibits the parallel import of pharmaceutical products bearing his trademark that have been repacked in new packaging to which the trademark has been affixed without the authorisation of the proprietor. However, in its subsequent reasoning, it pointed out that the exercise of a trademark right may constitute a disguised restriction on trade between Member States within the meaning of Article 36 of the EEC Treaty (now Article 36 of the TFEU). This is the case, *inter alia*, in the Court's view, when the proprietor of the trademark puts on the market in various Member States an identical product in various packages while availing himself of

[108] Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 53; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 43; Case C-232/94, n. 97 above, para. 25.

[109] Case C-102/77, n. 71 above, para. 10; Case C-3/78, n. 91 above, para. 21; Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 49; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 36; Case C-232/94, n. 97 above, para. 22; Case C-379/97, n. 100 above, para. 17; Case C-443/99, n. 100 above, para. 23; Case C-143/00, n. 100 above, para. 32; Case C-348/04, n. 100 above, para. 17; Case C-349/95, n. 105 above, para. 28 (it is reminded that, on the basis of the decision in *Loendersloot v. Ballantine*, the ECJ's case law relating to the legality of parallel imports of trademarked pharmaceutical products covers any trademarked product) (see *supra* section "Extension of the ECJ's Case Law Relating to the Legality of Parallel Imports of Trademarked Pharmaceutical Products to Any Trademarked Product").

the rights inherent in the trademark to prevent repackaging by a third person even if it were done in such a way that the identity of origin of the trademarked product and its original condition could not be affected.[110] Based on this consideration, the Court held that the proprietor of a trademark cannot use the trademark right with the intention of prohibiting the parallel import of pharmaceutical products bearing his trademark that have been repacked in new packaging to which the trademark has been affixed without the authorisation of the proprietor if the following conditions are satisfied cumulatively:

a) it is established that the use of the trademark right by the proprietor, having regard to the marketing system that he has adopted, will contribute to the artificial partitioning of the markets between Member States;
b) it is shown that the repackaging cannot adversely affect the original condition of the product;
c) the proprietor of the mark receives prior notice of the marketing of the repackaged product; and
d) it is stated on the new packaging by whom the product has been repackaged.[111]

By laying down the above conditions, which were indeed extended to any product repackaged without the authorisation of the trademark proprietor,[112] the Court made it clear that in order for reliance on a trademark right with a view to prohibiting the parallel import of products bearing the trademark that have been repackaged without the authorisation of the trademark proprietor to be subject to Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU), both the goal of the common market [condition (a)] and the trademark proprietor's interest in the original condition of the products not being affected by the repackaging must be taken into consideration. The condition that the repackaging does not affect the original condition of the products aims directly to safeguard the essential function of the trademark, as it has been confirmed by the subsequent case law of the ECJ. Indirectly, however, it also aims to safeguard the guarantee function of the trademark, as it will be shown below.[113] Also, the conditions (c) and (d) confirm that the protection of the advertising function of the trademark must also be taken into account in assessing the legality of parallel imports of trademarked products. The conditions for protection of the aforesaid function were clarified, however, in subsequent decisions of the Court.[114]

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[110] Case C-102/77, n. 71 above, para. 9.

[111] Case C-102/77, n. 71 above, para. 14.

[112] Case C-102/77, n. 71 above, para. 13. See also Case C-349/95, para. 27. It is reminded that, on the basis of the decision in *Loendersloot v. Ballantine*, the ECJ's case law pertaining to the legality of parallel imports of trademarked pharmaceutical products covers any trademarked product (see *supra* section "Extension of the ECJ's Case Law Relating to the Legality of Parallel Imports of Trademarked Pharmaceutical Products to Any Trademarked Product").

[113] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark".

[114] See *infra* section "Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark".

However, the examination as to whether the above conditions are met is not to be made at the same level for all the conditions. Indeed, a closer examination of the reasoning of the *Hoffmann-La Roche v. Centrafarm* decision shows that the fulfilment of conditions (b)–(d), laid down in that decision, in a case concerning the legality of a parallel import of trademarked products that have been repackaged without the authorisation of the trademark proprietor means that the exercise of the trademark right with a view to prohibiting such an import is subject to Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) only if it has previously been shown that such an exercise, having regard to the marketing system that the trademark proprietor has adopted, would contribute to the artificial partitioning of the markets between Member States [condition (a), laid down in *Hoffmann-La Roche v. Centrafarm*]. That is to say, in assessing whether the use of a trademark right in order to oppose the parallel import of trademarked products that have been repackaged without the authorisation of the trademark proprietor is subject to Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU), it must, in the light of the decision in *Hoffmann-La Roche v. Centrafarm*, be examined, first of all, whether such a use, having regard to the marketing system that the trademark proprietor has adopted, would contribute to the artificial partitioning of the markets between Member States. Only if it is found that condition (a), laid down in *Hoffmann-La Roche v. Centrafarm*, is met, the other conditions laid down in the same decision can be assessed. The decisive criterion for the use of a trademark right for the purpose of the exclusion of a parallel importation of trademarked products being subject to Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) is, therefore, according to the ECJ, to be found in proving that such a use, having regard to the marketing system that the trademark proprietor has adopted, would contribute to the artificial partitioning of the markets between Member States. The particular importance of the first of the conditions laid down by the ECJ in *Hoffmann-La Roche v. Centrafarm* reflects precisely the view that the re-affixing of the trademark under which a parallel imported product was put on the market to the product after the latter has been repackaged without the authorisation of the trademark proprietor involves, by definition, i.e. without there being any need to assess in each individual case its actual effects, a risk of the essential function of the trademark and, by extension, of the specific subject matter of the trademark right, protected under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), being adversely affected.

In the *Centrafarm v. American Home Products* decision, the provision of Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the TFEU) also applied in assessing the legality of the parallel importation of a pharmaceutical product after the trademark under which the product was put on the market had been replaced with the trademark used for the authorised distribution of the same product in the Member State of importation without the authorisation of the manufacturer (and the proprietor of the two trademarks). Specifically, in the above-mentioned decision, it was held that the use of the trademark right in order to prohibit such an importation, although justified in principle under Article

36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), constitutes a disguised restriction on trade between Member States within the meaning of Article 36 of the EEC Treaty (now Article 36 of the TFEU) if it is established that the proprietor of different trademarks has followed the practice of using such marks for the purpose of artificially partitioning the markets.[115]

Finally, in its subsequent case law, the ECJ ruled that the proprietor of a trademark cannot prevent the parallel import of pharmaceutical products bearing the trademark that have been repackaged without the authorisation of the proprietor (with or without re-affixing the trademark to the products), provided that the use of the trademark with the intention of preventing such an import constitutes a disguised restriction on trade between Member States within the meaning of Article 36 of the EEC Treaty (now Article 36 of the TFEU), namely provided that the following conditions are satisfied cumulatively:

a) it is established that such a use would contribute to the artificial partitioning of the markets between Member States;
b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging;
c) the new packaging clearly states who repackaged the product and the name of the manufacturer; similarly, the origin of an extra article from a source other than the trademark owner must be indicated in such a way as to dispel any impression that the trademark owner is responsible for it;
d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner;
e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product.[116]

The conditions that, if met, make the use of a trademark right for the purpose of preventing trademarked pharmaceutical products from being imported in parallel after the products have been repackaged (with or without re-affixing the trademark to the products) or the trademark under which the products were put on the market has been replaced constitute a disguised restriction on trade between Member States, as the conditions in question were laid down in the *Hoffmann-La Roche v. Centrafarm*, *Centrafarm v. American Home Products,* and subsequent decisions of the ECJ and were clarified further in the most recent case law of the ECJ, will be analysed in a following chapter of this Part.[117] Here, it is enough to note that, currently, the fulfilment of the above-mentioned conditions does not allow the trademark proprietor to prevent such a parallel importation not under Article 36, subparagraph 2 of the EEC Treaty (now Article 36, subparagraph 2 of the

[115] See Case C-3/78, n. 91 above, paras 21–23.

[116] Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 79; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 70; Case C-232/94, n. 97 above, para. 50.

[117] See *infra* Sect. 10.2.2.5.

TFEU) but under the provision of Article 7 (2) of Directive 2008/95/EC [ex-Article 7 (2) of Directive 89/104/EEC], which expresses the provision of Article 36 of the TFEU in EU secondary trademark law. Moreover, it is stressed that the above-mentioned conditions apply in principle to any trademarked product[118] and cover any case of repackaging a parallel imported trademarked product without the authorisation of the trademark proprietor.[119]

7.3.3.4 The Specific Subject Matter of the Right as a Guarantee for Protection of the Advertising and the Guarantee Functions of the Trademark

Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark

"Advertising function of the trademark" (or "investment function", "Werbefunktion" in German) means the ability of the trademark to become, through its use in advertising promotion of a product or service, the symbol of the reputation of an undertaking.[120]

According to the definition of the specific subject matter of the trademark right set out in the *Centrafarm BV and others v. Winthorp BV* decision, the protection of the specific subject matter of the trademark right includes also the protection of the proprietor of a trademark against competitors wishing to take advantage of the status and reputation of the trademark by selling products illegally bearing that trademark. Since the mid-1970s, the ECJ has then recognised the protection of the advertising function of the trademark in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU).[121] However, the conditions for protection of the aforesaid function were clarified in subsequent decisions of the ECJ concerning the legality of parallel imports of pharmaceuticals and luxury products.

In particular, it follows, as discussed above, from the subsequent case law of the Court on the legality of parallel trade in pharmaceutical products, which normally applies to any trademarked product, that the proprietor of a trademark is entitled, in principle, under Article 36, subparagraph 1 of the EEC Treaty (now Article

[118] See *supra* section "Extension of the ECJ's Case Law Relating to the Legality of Parallel Imports of Trademarked Pharmaceutical Products to Any Trademarked Product".

[119] For the interventions on the original condition of trademarked pharmaceutical products imported in parallel that fall within the term "repackaging", see *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark".

[120] For the "advertising function" of trademarks and its legal protection, see, *inter alia*, Antonopoulos (2005), pp. 370–372, Nr. 445; Fezer (2009), pp. 82–83, Nr. 9; Grigoriadis (2006), pp. 24–37; Henning-Bodewig and Kur (1988), p. 6; Krauß (1999), pp. 21–23; Liakopoulos (2000), pp. 322–323; Marinos (2007), pp. 15–16 and 18, Nr. 37–38 and 43–44; Rokas (1997); Rokas (1999); Rokas (2004), pp. 96–97, Nr. 18–20.

[121] See *supra* Sect. 7.3.3.1.

36, subparagraph 1 of the TFEU) to oppose the parallel import of products bearing the trademark that have been repackaged without the authorisation of the trademark proprietor (with or without re-affixing the trademark) based on the assumption that the repackaging of a trademarked product involves, by definition, i.e. without there being any need to assess in each individual case its actual effects, a risk of the essential function of the trademark and, by extension, of the specific subject matter of the trademark right, protected under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), being adversely affected.[122] However, there is no possibility of preventing such a parallel import if reliance on the trademark right to prevent such a parallel import constitutes a disguised restriction on trade between Member States within the meaning of Article 36 of the EEC Treaty (now Article 36 of the TFEU), namely if certain conditions are cumulatively satisfied. One of the previously mentioned conditions is that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner.[123]

The above-mentioned condition confirms the assumption that the Court recognises, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), the protection of the advertising function of the trademark.[124] Indeed, the ECJ recognises the protection of the advertising function of the trademark irrespective of the existence of a risk of confusion as to the identity of the entity under the control of which the products imported in parallel were manufactured, i.e. irrespective of the existence of a risk of the origin function of the trademark, which is connected only with the condition that the repackaging cannot affect the original condition of the product inside the packaging, being impaired.[125] However, unlike the origin function, the advertising function of the trademark is not protected, in the Court's view, to its full extent. This is because an absolute protection of that function would mean that the proprietor of a trademark could prevent the parallel importation of products bearing the trademark on the basis that the reputation or the distinctive character of his trademark is particularly strong in the Member State of importation. In contrast, in the Court's view, the protection of the advertising function of the trademark should rather be understood as protection of the reputation (or the distinctive character)[126] of the trademark and, by extension, of the trademark proprietor

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[122] See *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark".

[123] See Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 75; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 65; Case C-232/94, n. 97 above, para. 46. See also *supra* Sect. 7.3.3.3.

[124] Keeling (2003), p. 158.

[125] See Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 67; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 58; Case C-232/94, n. 97 above, para. 39.

[126] It is to be noted that, in the context of the ECJ's case law on the legality of parallel imports of trademarked pharmaceutical products, the term "reputation" is wide in scope, namely the term refers not only to trademarks with a reputation within the meaning of Articles 4 (3) and (4) (a) and 5 (2) of Directive 89/104/EEC [now Articles 4 (3) and (4) (a) and 5 (2) of Directive 2008/95/EC]

against possible damage or danger of damage or its unfair exploitation by parallel traders (importers and resellers), irrespective of the existence of a risk of confusion as to the identity of the entity under the control of which the goods imported in parallel were manufactured.

The scope of protection of the advertising function of the trademark is, however, fully defined by the statements made by the ECJ in decisions concerning the legality of parallel imports of trademarked luxury products.[127] In particular, in the aforementioned case law, the Court pointed out, by reference to the case law concerning the legality of parallel imports of trademarked pharmaceutical products, that in order for the parallel import of a luxury product that has been relabelled without the authorisation of the trademark proprietor to be legal, the third party who relabelled the product must ensure that the reputation of the trademark—and hence of its owner—does not suffer from an inappropriate presentation of the relabelled product.[128] Moreover, the Court made it clear that an adverse effect on the advertising function of the trademark of luxury products allows the trademark proprietor to prevent the parallel importation of the products regardless of whether there is a risk of the origin function of the trademark being adversely affected. In particular, in one of the decisions included in the above-mentioned case law, it was accepted that the reseller of luxury products imported in parallel may use the trademark affixed to the products in his advertising, unless it is established that, given the specific circumstances of each individual case, the use of the trademark in that advertising seriously damages or is liable seriously to damage the reputation of the trademark.[129] Furthermore, in another decision, the Court recognised that the fact that the trademark is used in a reseller's advertising in such a way that it may give rise to the impression that there is a commercial connection between the reseller and the trademark proprietor and, in particular, that the reseller's business is affiliated to the trademark proprietor's distribution network or that there is a special relationship between the two undertakings adversely affects the specific subject matter of the trademark right.[130] The protection of the advertising function of the trademark, therefore, includes, in the view of the ECJ, also the protection of the trademark proprietor against the possibility of the reputation of the trademark being unfairly exploited by a parallel importer or an independent reseller.[131]

and Articles 8 (5) and 9 (1) (c) of Regulation (EC) 40/94 [now Articles 8 (5) and 9 (1) (c) of Regulation (EC) 207/2009] but also to common trademarks.

[127] Case C-349/95, *Frits Loendersloot v. George Ballantine & Son Ltd etc.*, [1997] ECR I-6227; Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV*, [1997] ECR I-6013; Case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v. Ronald Karel Deenik*, [1999] ECR I-905.

[128] Case C-349/95, n. 127 above, para. 33.

[129] Case C-337/95, n. 127 above, paras 45 and 46.

[130] Case C-63/97, n. 127 above, para. 51.

[131] Case C-63/97, n. 127 above, para. 52.

Finally, according to the most recent case law of the Court on the legality of parallel trade in luxury products,[132] the proprietor of the trademark borne by a luxury product may prevent the product from being resold in parallel where it is established that, given the specific circumstances of each individual case, the resale entails damage to the reputation or a risk of damage to the reputation of the trademark.[133] Also, a trademark proprietor may oppose the use of the trademark by a parallel reseller for the purpose of advertising if that use seriously damages the reputation of the trademark or suggests that there is a commercial connection between the reseller and the trademark proprietor.[134]

In conclusion, in the light of the ECJ's case law, the protection of the advertising function of the trademark should rather be understood as protection of the reputation (or the distinctive character) of the trademark and, by extension, of the trademark proprietor against possible damage or danger of damage or its unfair exploitation by parallel traders (importers and resellers), even if there is no likelihood of confusion for consumers or end users of products imported in parallel as to the identity of the entity under the control of which the products were manufactured.[135]

Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark

"Guarantee function of the trademark" (or "quality function", "Qualitätsfunktion" in German) means the guarantee that the trademark provides to consumers that a product or service bearing that trademark meets their expectations in terms of quality or other features (e.g., specifications of use, function, or luxury, equipment, guarantee).[136]

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[132] Case C-59/08, *Copad SA v. Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, [2009] ECR I-3421; Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011; Case C-558/08, *Portakabin Ltd and Portakabin BV v. Primakabin BV*, [2010] ECR I-6963.

[133] Case C-59/08, n. 132 above, paras 56–57; Case C-324/09, n. 132 above, in particular paras 78–79.

[134] Case C-558/08, n. 132 above, paras 84 and 91.

[135] It is submitted that if the trademark is used in the parallel trader's advertising, the possibility of preventing the parallel importation does not exist unless the damage or the risk of damage to the reputation of the trademark is considered to be, in the view of the national court, serious. Cf. Opinion of Advocate General Stix-Hackl in Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, point 111.

[136] For the "guarantee function" of trademarks and its legal protection, see *inter alia* Antonopoulos (2005), pp. 372–374, Nr. 446–447; Grigoriadis (2006), pp. 37–41; Fezer (2009), p. 8, Nr. 8; Henning-Bodewig and Kur (1988), p. 6; Krauß (1999), pp. 18–20; Liakopoulos (2000), pp. 321–322; Marinos (2007), pp. 14–15 and 17, Nr. 36 and 42; Rokas (2004), pp. 95–96, Nr. 16–17.

According to the definition of the specific subject matter of the trademark right given by the ECJ in *Centrafarm BV and others v. Winthorp BV*, the proprietor of a trademark is not allowed to prevent a product bearing the trademark from being subject to Article 30 of the EEC Treaty (now Article 34 of the TFEU) with the argument that there is a risk of the guarantee function of the trademark being adversely affected. The quality features linked, in the minds of the consumers of a Member State, to a trademark do not justify in themselves, from the Court's perspective, prohibitions of parallel imports of goods bearing the trademark. The reason for that should rather be found in the fact that the guarantee function of the trademark was not protected independently under the national trademark laws of the founding Member States of the Community.[137] Moreover, the objective of trademark law did not include, in the perception of the national legislators of the founding Member States of the Community, the protection of the interests of consumers. The interests of consumers, as they are served by the guarantee function of the trademark, could, in the perception of the national legislators of the founding Member States of the Community, be protected only indirectly, namely within the context of the origin function of the trademark.[138] According to the definition of the specific subject matter of the trademark right given by the ECJ in *Centrafarm BV and others v. Winthorp BV*, therefore, the guarantee function of the trademark is not protected in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU) independently of the origin function of the trademark.

However, the subsequent case law of the Court on the legality of parallel trade in pharmaceutical products, which normally applies to any trademarked product, indicates that Article 36 of the EEC Treaty (now Article 36 of the TFEU) protects also the guarantee function of the trademark, although not independently but within the context of the origin function of the trademark. In particular, it follows, as discussed above, from that case law that the proprietor of a trademark is entitled, in principle, under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU) to oppose the parallel import of products bearing the trademark that have been repackaged without the authorisation of the trademark proprietor (with or without re-affixing the trademark) based on the assumption that the repackaging of a trademarked product involves, by definition, i.e. without there being any need to assess in each individual case its actual effects, a risk of the essential function of the trademark and, by extension, of the specific subject matter of the trademark right, protected under Article 36, subparagraph 1 of the EEC Treaty (now Article 36, subparagraph 1 of the TFEU), being adversely affected.[139] However, there is no possibility of preventing such a parallel import if reliance on

[137] See Beier (1970), pp. 63–64, and, in particular, Wertheimer (1967), pp. 646–652. Especially in relation to German law, see Baumbach and Hefermehl (1985), pp. 26–27, Nr. 12; Krauß (1999), pp. 18–20.

[138] Cf., in relation to German law, Krauß (1999) p. 20.

[139] See *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark".

the trademark right to prevent such a parallel import constitutes a disguised restriction on trade between Member States within the meaning of Article 36 of the EEC Treaty (now Article 36 of the TFEU), namely if certain conditions are cumulatively satisfied. One of the previously mentioned conditions is that it is shown that the repackaging cannot affect the original condition of the product inside the packaging.[140]

The above-mentioned condition confirms the assumption that the Court recognises, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), also the protection of the guarantee function of the trademark. However, the protection of that function is not understood as protection of consumers/end users against the possibility of being misled as to the features of parallel imported products. Indeed, in view of no decision of the ECJ, trademark proprietors are not allowed to prohibit parallel imports with the argument that there is a risk of the consumers/end users of the Member State of importation being misled as to the quality or other features of the products imported in parallel. On the contrary, in fact, in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgment, the ECJ made it clear that a differentiation of the quality of a product between the markets of the Member States cannot justify prohibitions of parallel imports.[141] Instead, the protection of the function in question aims, in the ECJ's view, rather at ensuring that the origin function of the trademark is not adversely affected in cases of parallel imports involving, by definition, a risk of the aforesaid function and, by extension, of the specific subject matter of the trademark right being adversely affected. In the ECJ's view, therefore, the protection of the guarantee function of the trademark means, in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU), that the consumer or ultimate user can be certain that the quality or other characteristics of a trademarked product that is sold to him have not been changed, without the authorisation of the proprietor of the trademark, after the product has been put on the market for the first time.

7.3.3.5 Remarks

Thus, in the light of the applicable Articles 34 and 36 of the TFEU, the semantic content of the doctrine of specific subject matter of the trademark right may be summarised as follows:

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[140] See Joined Cases C-427/93, C-429/93 and C-436/93, n. 97 above, para. 59; Joined Cases C-71/94, C-72/94 and C-73/94, n. 97 above, para. 49; Case C-232/94, n. 97 above, para. 31. See also *supra* Sect. 7.3.3.3.

[141] Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, para. 38. See, in detail, *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

i) The proprietor of a trademark in a Member State of the European Union may oppose the importation of products bearing the trademark that have not been put on the market by him or with his consent in another Member State.
ii) The proprietor of a trademark in a Member State of the European Union cannot oppose the importation of products bearing the trademark that have been put on the market by him or with his consent in another Member State. A trademarked product must be considered to have been put on the market with the consent of the trademark proprietor, as an irrefutable presumption, in cases where the product has been put on the market by an undertaking belonging to the same group as the trademark proprietor or when the product has been put on the market by a trademark licensee or in cases where the product has been put on the market by an authorised (exclusive or selected) distributor. Parallel imports cannot be prohibited also by trademark proprietors-subsidiary undertakings or trademark proprietors-exclusive distributors.
iii) The proprietor of a trademark can, in principle, prevent a product bearing the trademark from being imported in parallel where, without the authorisation of the trademark proprietor, the parallel importer (a) has replaced the (original) inner or outer packaging of the product and re-affixes the trademark under which the product was put on the market to the product; (b) has replaced the trademark under which the product was put on the market with the trademark used for the authorised distribution of the same product in the Member State of importation; (c) has altered the contents or the appearance of the original external packaging of the product, leaving intact the trademark affixed to that packaging; (d) has affixed a new label to the (original) inner or outer packaging of the product, leaving intact the trademark affixed to that packaging; (e) has added new user instructions or information in the language of the Member State of importation to the packaging of the product; (f) has replaced the accompanying product included in the packaging of the product.
iv) There exists no possibility of using the trademark right in order to prohibit parallel imports in the cases mentioned under (iii) if it is established that such a use constitutes a disguised restriction on trade between Member States within the meaning of Article 36 of the TFEU, namely if the following conditions are cumulatively satisfied: (a) it is established that such a use would contribute to the artificial partitioning of the markets between Member States; (b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging; (c) the new packaging clearly states who repackaged the product and the name of the manufacturer; similarly, the origin of an extra article from a source other than the trademark owner must be indicated in such a way as to dispel any impression that the trademark owner is responsible for it; (d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner; (e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product. Those conditions apply, in principle, to any trademarked product.

v) The proprietor of a trademark may oppose the use of the trademark by a parallel trader in relation to a product bearing the trademark where such a use involves damage or a risk of damage to the reputation (or the distinctive character) of the trademark or constitutes an unfair exploitation of that reputation (or distinctive character). If the trademark is used in the parallel trader's advertising, the possibility of preventing the parallel importation does not exist unless the damage or the risk of damage to the reputation of the trademark is considered to be, in the view of the national court, serious.

7.3.4 The Doctrine of "Essential Function of the Right"

Another doctrine arising from the ECJ's case law on the legality of parallel imports of trademarked goods is the doctrine of "essential function of the right" ("Lehre von der wesentlichen Funktion" in German).

In the *Centrafarm BV and others v. Winthorp BV* decision, the phrase "the essence of the exclusive right flowing from the trade mark" was used to describe the origin function of the trademark.[142] The fact that the "the essence of the exclusive right flowing from the trade mark" is nothing other than the origin function of the trademark was confirmed in a subsequent decision of the ECJ, in particular in the *Hoffman-La Roche v. Centrafarm* decision, where the "essential function" of the trademark is defined as the function of the trademark "to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin".[143]

As observed in the analysis of the doctrine of specific subject matter of the trademark right, the aforesaid doctrine aims particularly at safeguarding the origin function or, in other words, the essential function of the trademark.[144] Indeed, in the *Centrafarm BV and others v. Winthorp BV* decision, the Court invoked the "essential function" of the trademark in order to justify its assessment that reliance on trademark rights in order to prohibit parallel imports of trademarked products that were put on the market in a Member State by the trademark proprietor or with his consent is not covered by the specific subject matter of the trademark right.[145] Moreover, in its subsequent case law, the ECJ focused on the meaning of the essential function of the trademark that had already been put forward as the main justification for the development of the doctrine of specific subject matter of the trademark right.[146] In addition, however, it included in the specific subject matter of

[142] Case C-16/74, n. 49 above, para. 11. See, in detail, *supra* Sect. 7.3.3.1.

[143] Case C-102/77, n. 71 above, para. 7.

[144] See *supra* Sect. 7.3.3.1.

[145] See *supra* Sect. 7.3.3.1.

[146] See *supra* Sect. 7.3.3.2.

the trademark right the main functions of an economic nature that may be developed by a trademark, namely the advertising and guarantee functions.[147] Thus, given that the protection of the specific subject matter of the trademark right aims, in particular, at safeguarding the essential function of the trademark, the doctrine of essential function of the trademark right should not, in this author view, be regarded as a doctrine that is independent of that of specific subject matter of the trademark right. Instead, what should be rather accepted is that the essential function of the trademark right doctrine is a sub-classification of the specific subject matter of the trademark right doctrine.[148]

7.3.5 The Doctrine of "Common Origin"

7.3.5.1 The Concept of Common Origin

Since the first years of the establishment of the Community (now European Union), conflicts between identical or similar trademarks that have a common origin, i.e. a common, historical owner, have been a frequently observed phenomenon. Thus, since the early 1970s, the ECJ was called on to answer the question of whether a trademark proprietor is entitled, in the light of Articles 30 and 36 of the EEC Treaty (now Article 34 and 36 of the TFEU), to prohibit imports of products bearing the trademark where the trademark, as a whole (in the importing and exporting Member States), had a common owner at some time in the past but the ownership of the trademark was split up by way of a contractual assignment or as a result of a governmental act such as expropriation and, further, the products of the trademark proprietor (in the Member State of importation) and the imported ones were not produced under the control of a single body. In other words, the question that the ECJ had to answer since the very early years of the development of its case law on the legality of the exercise of the trademark right under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) was whether those Articles imposed a uniform treatment of parallel imports of trademarked goods and imports concerning goods covered by a trademark that at some time in the past was owned by the same person in the Member States of importation and exportation but, at the time when the goods were put on the market, the use of the trademark in the Member States of importation and exportation was not under common control, so that the imports in question could not be considered to be "parallel".[149]

In an attempt to answer the above-mentioned question, the Court developed the doctrine of "common origin" ("Theorie der Ursprungsgleichheit" in German), which was characterised by serious weaknesses, as it was recognised by the Court

[147] See *supra* Sect. 7.3.3.4.

[148] See Hays (2004), p. 31, para. 2.15.

[149] For the parallel imports of trademarked goods cases, see *supra* Sect. 1.4.1.

itself in the early 1990s, when that doctrine was abandoned. However, despite the fact that the doctrine of common origin has been abandoned by the Court for nearly two decades, a reference to that doctrine is absolutely essential. This is because the ECJ's decisions whereby the doctrine in question was abandoned are of great importance for the interpretation of the EU secondary trademark law provisions that express Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).

7.3.5.2 The *Van Zuylen v. Hag AG* and *Terrapin v. Terranova* Decisions: The Doctrine of Common Origin

The common origin doctrine was adopted by the Court of Justice in *Van Zuylen v. Hag AG*[150] (also known as "*HAG I*") and *Terrapin v. Terranova*.[151]

In the *Van Zuylen v. Hag AG* case, the central question was about the legality of the prohibition of an import that concerned products bearing a trademark that was almost identical to one recorded in the Member State of importation, while, in addition, the two trademarks in the Member States of importation and exportation had a common, historical owner, and more specifically the ownership of the trademark was split up as a result of an act of expropriation carried out by governmental authorities. The ECJ held that the import prohibition at issue was contrary to Article 36 of the EEC Treaty (now Article 36 of the TFEU). According to the *Van Zuylen v. Hag AG* judgment, the proprietor of a trademark is not allowed to rely upon the exclusiveness of his right—which may be the consequence of the territorial limitation of national legislations—for the purpose of prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trademark having the same origin.[152] Such a prohibition would be in conflict with the goal of ensuring the establishment and functioning of a common market among the Member States.[153] The claim of the undertaking seeking to prohibit the import at issue that if the import at issue were to be allowed this would undermine the origin function of its trademark was not accepted by the Court. According to the relevant statements, "whilst in such a market the indication of origin of a product covered by a trade is useful, information to consumers on this point may be ensured by means other than such as would affect the free movement of goods".[154]

In the judgment in *Terrapin v. Terranova*, the Court confirmed the applicability of the common origin doctrine also in the case where the ownership of the

[150] Case C-192/73, *Van Zuylen frères v. Hag AG*, [1974] ECR 731.

[151] Case C-119/75, *Terrapin (Overseas) Ltd. v. Terranova Industrie CA Kapferer & Co*, [1976] ECR 1039.

[152] Case C-192/73, n. 150 above, para. 12.

[153] Case C-192/73, n. 150 above, para. 13.

[154] Case C-192/73, n. 150 above, para. 14.

trademark was split up by way of a contractual assignment.[155] The precedence of the principle of free movement of goods over trademark protection was based on the assumption that, after the ownership of a trademark has been split up, either by voluntary act or as a result of public constraint, the origin function of the trademark is already undermined.[156]

7.3.5.3 Review of the Common Origin Doctrine

In the light of the above judgments, it can be said that the idea that the common origin doctrine seemed to express was that, after the ownership of a trademark in two Member States has been split up by way of a contractual assignment or as a result of a governmental act such as expropriation, the proprietors of the trademark in those Member States should not have more rights than the rights that the initial owner of the trademark in those Member States had.[157] Indeed, the common origin doctrine seems to reflect the view that the holder of a trademark right who acquired his right after the ownership of the trademark in two Member States has been split up by way of a contractual assignment or as a result of a governmental act such as expropriation cannot oppose commercialisation of a product bearing the trademark that was put on the market by the holder of the trademark right in the other Member State or with his consent, just as the initial owner of the trademark in those Member States could not oppose commercialisation of a product bearing the trademark if the latter had been put on the market by him or with his consent. Under the common origin doctrine, trademark licensing is—in substance—treated in the same way as the transfer of the trademark, and this uniform treatment is justified on the ground that the identity of origin of a trademarked product can be ensured by the origin function of the trademark only to the extent allowed by the goal of the common market.

The common origin doctrine was the object of almost unanimous criticism at the time.[158] That criticism was, indeed, entirely justified. In particular, the application of the doctrine in question led to the result that Article 30 of the EEC Treaty (now Article 34 of the TFEU) takes precedence over the right of a trademark proprietor to prevent imports of products bearing the trademark, even if the products have not been marketed with his consent. The doctrine of common origin implied, that is to say, that Article 30 of the EEC Treaty (now Article 34 of the TFEU) is applicable even to unauthorised imports that cannot be described as "parallel" under the

[155] Case C-119/75, n. 151 above, para. 6.

[156] Case C-119/75, n. 151 above, para. 6.

[157] Hefermehl and Fezer (1979), pp. 22–23.

[158] See typically Alexander (1974); Cornish (1975); Kraft (1975); Ladas (1974); Lewis (1975); Maday (1975); Mak (1975); Ricolfi (1975); Tilmann (1975). From the subsequent legal literature, see Ebenroth and Hübschle (1994a), p. 117, Nr. 126; Ebenroth (1992), pp. 37–38, Nr. 40; Oliver (1991), p. 275; Rothnie (1991).

general theory as to parallel imports, precisely because they do not concern trademarked goods that are genuine from the perspective of the trademark proprietor in the Member State of importation.[159] Furthermore, the common origin doctrine led to the levelling down of the origin function of the trademark for the sake of the free movement of goods between Member States. It is, indeed, worth noting that such a situation was not justified at all in the judgment in *Van Zuylen v. Hag AG*,[160] while the Court's attempt to justify the common origin doctrine in the *Terrapin v. Terranova* judgment was unsuccessful.[161] In particular, the Court's assessment that, after the ownership of a trademark has been split up either by voluntary act or as a result of public constraint, the origin function of the trademark is already undermined is wrong in that the origin function of the trademark is not to indicate the historical origin of the trademark but the origin of goods bearing the trademark from a particular undertaking.[162] As has been rightly observed, the consumer is not interested in knowing the genealogy of trademarks but in knowing who made the goods that he purchases.[163]

The very least that can be said is then that the doctrine of common origin reflects a misunderstanding on the part of the Court of the essential function of the trademark. That misunderstanding was probably founded on a conception adopted by the Court until the early 1970s, which was not worthy of the role that the trademark plays in economic life and in business transactions, as that conception is stated eloquently in the *Sirena v. Eda* decision. More specifically, according to the aforementioned decision, "a trade-mark right is distinguishable from other

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[159] See *supra* Sects. 1.1 and 1.4.1.

[160] Cf. Opinion of Advocate General Jacobs in Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG*, [1990] ECR I-3711, points 21–22.

[161] Cf. Opinion of Advocate General Jacobs, n. 160 above, points 23–25.

[162] See Opinion of Advocate General Jacobs, n. 160 above, point 24.

[163] See Opinion of Advocate General Jacobs, n. 160 above, point 24. However, there were some authors who defended the *HAG I* decision. See Fricke (1977), Herrmann (1976), Jacobs (1975), Johannes and Wright (1976), Johannes (1975), and Schwab (1975). According to the previously mentioned authors, the question of whether a trademark continues to perform its function as a guarantee of origin should be examined, not with reference to the situation existing in separate national markets but from a Community (now EU)-wide viewpoint. However, such an approach is wrong in that the goal of the common market does not affect the principle of territoriality of trademark rights, according to which identical or similar trademarks used for the marketing of the same goods in different Member States do not guarantee that the products bearing them come from the same undertaking, regardless of whether they have a common origin. The fact that it is not possible to avoid that transnational consumers are confused as to the origin of a product bearing a trademark identical or similar to the one used for the marketing of the same product in those consumers' home Member State cannot provide a justification for the common origin doctrine. This is because, firstly, the fact that a minority of transnational consumers are confused as to the origin of certain goods does not mean, as a matter of Community (now EU) law, that the domestic consumers of the entire Community must be required to be similarly confused and, secondly, the confusion suffered by transnational consumers in such cases does not depend on whether the two trademarks have a common origin. Cf. Opinion of Advocate General Jacobs, n. 160 above, point 25.

rights of industrial and commercial property, inasmuch as the interests protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade-mark".[164] This view was, indeed, clearly dictated by an attempt to reduce the impact of the exercise of the trademark right on the free movement of goods between Member States.[165] The development of the doctrines of specific subject matter of the right and essential function of the right helped the Court to realise the unfortunate effect of the common origin doctrine and, by extension, to abandon that doctrine.

7.3.5.4 The Decisions in *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*: The Consent of the Trademark Proprietor as a Condition for the Applicability of Article 30 of the EEC Treaty (Now Article 34 of the TFEU)

The Court had developed the common origin doctrine in the early 1970s, i.e., before the doctrines of specific subject matter of the right and essential function of the right were developed. For several years, the ECJ had no opportunity to confirm or abandon the case law established by the decisions in *Van Zuylen v. Hag AG* and in *Terrapin v. Terranova*. The question of whether the common origin doctrine is still in force was to be answered by the Court eventually in the early 1990s in the judgments in *CNL-SUCAL v. HAG*[166] (known as "*HAG II*") and *IHT Internationale Heiztechnik v. Ideal-Standard*.[167]

In the case in *CNL-SUCAL v. HAG*, the dispute was similar to the one in the *Van Zuylen v. Hag AG* case, namely it was about whether a trademark proprietor may prevent an importation of products bearing his trademark that were not put on the market in another Member State with the consent of the proprietor where the trademark right, as a whole (in the importing and exporting Member States), had a common owner at some time in the past but the ownership of the trademark was split up as a result of public constraint. To resolve the conflict, the ECJ did not follow undoubtedly the approach adopted in *Van Zuylen v. Hag AG* but held that it should reconsider the statements made in the aforesaid decision in the light of the case law developed between the *Van Zuylen v. Hag AG* case and the *CNL-SUCAL v. HAG* case. Thus, on the basis of the statements it made in relation to the specific subject matter and the essence of the exclusive right flowing from the trademark in the judgments in *Centrafarm BV and others v. Winthorp BV* and *Hoffman-La Roche*

[164] Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69, para. 7. Cf. Opinion of Advocate General Dutheillet de Lamothe in Case C-40/70, *Sirena S.r.l. v. Eda S.r.l. and others*, [1971] ECR 69, point 87.

[165] Case C-40/70, n. 164 above, para. 7.

[166] Case C-10/89, *SA CNL-SUCAL NV v. HAG GF AG,* [1990] ECR I-3711.

[167] Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v. Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789.

v. Centrafarm, the Court ruled that for the purpose of evaluating the legality of the importation at issue, "the determinant factor is the absence of any consent on the part of the proprietor of the trade mark protected by national legislation to the putting into circulation in another Member State of similar products bearing an identical or one liable to lead to confusion, which are manufactured and marketed by an undertaking which is economically and legally independent of the aforesaid trade mark proprietor".[168] Instead, it pointed out that the fact that the trademark by reference to which the importation at issue was sought to be prohibited and the similar trademark borne by the imported goods originally belonged to the same proprietor, who was divested of one of them following expropriation either by the Member State of importation or by the Member State of exportation prior to the establishment of the Community, did not affect the evaluation of the legality of the importation at issue.[169] This is because "from the date of expropriation and notwithstanding their common origin, each of the marks independently fulfilled its function, within its own territorial field of application, of guaranteeing that the marked products originated from one single source".[170] By the judgment in *CNL-SUCAL v. HAG*, the Court abandoned then the common origin doctrine as far as the case where the ownership of the trademark in two Member States has been split up as a result of a governmental act such as expropriation is concerned.

In the case in *IHT Internationale Heiztechnik v. Ideal-Standard*, the Court declined to apply the common origin doctrine also in the case where the ownership of the trademark in two Member States has been split up by way of a contractual assignment. In particular, on the basis of the considerations contained in the *CNL-SUCAL v. HAG* decision, the Court accepted that in assessing the legality of the prohibition on an import of trademarked goods under Article 36 of the EEC Treaty (now Article 36 of the TFEU), it must be determined whether the goods were put on the market in the exporting Member State with the consent of the trademark proprietor, regardless of whether the proprietor to whom the trademark by reference to which the import at issue was sought to be prohibited and the trademark borne by the imported goods originally belonged was divested of one of them due to an act of public authority or a contractual assignment.[171] This assessment was prompted, as it is confirmed by the Court's references to the paragraphs of the decision in *CNL-SUCAL v. HAG*,[172] by the right view that the specific subject matter and the essential function of the trademark right, protected under 36 of the EEC Treaty (now Article 36 of the TFEU), must be safeguarded in all cases, irrespective of the particular facts of each individual case.

In conclusion, as a general remark on the foregoing decisions, it can be noted that the abandonment of the common origin doctrine by the ECJ was accompanied

[168] Case C-10/89, n. 166 above, para. 15.

[169] Case C-10/89, n. 166 above, para. 17.

[170] Case C-10/89, n. 166 above, para. 18.

[171] Case C-9/93, n. 167 above, para. 46.

[172] Case C-9/93, n. 167 above, paras 44–45.

by the elevation of the consent of the proprietor of a trademark for putting on the market of products bearing his trademark to a criterion for the applicability of Article 30 of the EEC Treaty (now Article 34 of the TFEU) to the products. As discussed in a previous point,[173] in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgment were also cited the cases in which it must be accepted, as an irrefutable presumption, that the proprietor of a trademark has consented to putting products bearing his trademark on the market. In particular, according to the judgment in *IHT Internationale Heiztechnik v. Ideal-Standard,* a trademarked product must be considered to have been put on the market with the consent of the trademark proprietor, as an irrefutable presumption, in cases where the product has been put on the market by an undertaking belonging to the same group as the trademark proprietor or when the product has been put on the market by a trademark licensee or in cases where the product has been put on the market by an authorised (exclusive or selected) distributor.[174] Also, the consent of the trademark proprietor-manufacturer or the trademark proprietor-parent undertaking for putting products bearing his trademark onto the market applies, concurrently, as an irrefutable presumption, as consent of the trademark proprietor-exclusive distributor or the trademark proprietor-subsidiary undertaking, respectively.[175]

7.3.6 The Doctrine of "Community Exhaustion of Rights"

According to what was said in Chap. 1 of this book, the classical principle developed internationally in order to solve the problem of the legality of parallel imports is the principle of exhaustion of rights.[176] At the time when the Community was established, that principle had been already adopted by some of the founding Member States, either through legislation or their courts' case law.[177] This fact could not, of course, go unnoticed by legal doctrine as well as the ECJ.

Since the very first years from the establishment of the Community, the German theorists *Norbert Koch* and *Franz Froschmaier* pointed out that the founding Member States of the Community that, before the entry into force of the EEC Treaty, recognised a regime of national exhaustion of patent rights should adopt a regime of Community-wide exhaustion of patent rights. According to *Koch* and *Froschmaier*, if it were permissible for the owner of a patent in a Member State to prevent imports of products embodying his right that had been put on the market in another Member State by the owner or with his consent, this would be incompatible

[173] See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

[174] Case C-9/93, n. 167 above, para. 34.

[175] Case C-9/93, n. 167 above, para. 35.

[176] See *supra* Sect. 1.4.2.4.

[177] See Koch and Froschmaier (1965).

with the EEC Treaty. This is because if the owner of a patent were able to control not only the first sale but also the resale of products embodying his right that had been put on the market in another Member State by the owner or with his consent, this would mean that the owner in question could receive a multiple reward for his inventive effort in relation to those products without such multiple reward being justified in the light of the generally uniform protection of patent rights among the founding Member States. These considerations made the above-mentioned theorists argue against the principle of national exhaustion of patent rights, which in the 1960s prevailed in many Member States, and for the adoption by the Member States of a regime of Community-wide exhaustion of patent rights.

Some years later, the doctrine of "Community-wide exhaustion of rights" was also recognised by the ECJ's case law. Specifically, the aforesaid doctrine was recognised for the first time by the ECJ in the *Deutsche Grammophon v. Metro SB* decision, where the Court ruled in favour of the legality of a parallel importation of products embodying a right related to copyright. According to the relevant statements, "If a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market. That purpose could not be attained if, under the various legal systems of the Member States, nationals of those States were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States".[178]

As regards trademark rights, the doctrine of Community-wide exhaustion of rights was recognised for the first time in the *Centrafarm BV and others v. Winthorp BV* judgment, in which, as discussed in a previous point,[179] also the doctrine of specific subject matter of the trademark right was established. According to the relevant statements, "the exercise, by the owner of a trade mark, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product which has been marketed under the trade mark in another Member State by the trade mark owner or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market".[180] On the basis of the *Centrafarm BV and others v. Winthorp BV* decision, the owner of a trademark in a Member State cannot, therefore, rely on his right in order to prohibit the parallel importation of products bearing the trademark that have been put on the market by him or with his consent in another Member State. In other words, the right of the owner of a trademark is exhausted in relation to goods

[178] Case C-78/70, n. 22 above, para. 12.

[179] See *supra* Sect. 7.3.3.1.

[180] Case C-16/74, n. 49 above, para. 12.

bearing his trademark once the goods are put on the market in the Community (now European Union) by the trademark owner or with his consent.

If for *Koch* and *Froschmaier* the rationale of a doctrine of Community-wide exhaustion of patent rights was to avoid the possibility of multiple reward of the holder of a patent with regard to a product embodying his right, a question arises as to where the rationale of the principle of Community-wide exhaustion of trademark rights is, in the view of the ECJ, to be found. In order to answer this question, it is necessary to correlate the formulations contained in the *Centrafarm BV and others v. Winthorp BV* judgment concerning the doctrine of exhaustion of the trademark right to the definition of the specific subject matter of the trademark right contained in the same judgment. In particular, it follows from the aforesaid definition that a trademark proprietor can control only the first marketing of a product bearing his trademark. On the other hand, the rule of Community-wide exhaustion of trademark rights confirms that the proprietor of a trademark in a Member State cannot prohibit the import and sale of a product bearing the trademark that was put on the market in the Community (now European Union) by the proprietor or with his consent. In the light of the foregoing findings, the particular importance of the principle of Community-wide exhaustion of rights in the context of the problem concerning the applicability of Article 36 of the EEC Treaty (now Article 36 of the TFEU) to trademarked products lies, in this author's opinion, in the fact that the principle in question clarifies the conditions under which a trademarked product is to be subject to Article 30 of the EEC Treaty (now Article 34 of the TFEU). The principle in question, that is to say, clarifies that in order for a trademarked product to fall within the scope of Article 30 of the EEC Treaty (now Article 34 of the TFEU), it does not suffice to ascertain that any act by a trademark proprietor (or other person authorised by him) directed towards the market has taken place with regard to the product (e.g., presentation of the product in shop windows, advertisement of the product in a newspaper). Instead, an act that gives the trademark proprietor the chance to realise the economic value of the trademark with respect to the product through the shifting of the profit or loss, namely the economic risk, of any onward sale of the product from the trademark proprietor to a third party (in relation to the trademark proprietor) is required.[181] Based on these considerations, the doctrine of Community-wide exhaustion of trademark rights should be clearly distinguished from the doctrine of specific subject matter of trademark rights; further, the latter doctrine should regarded as the rationale of the former.

The doctrine of Community-wide exhaustion of trademark rights was restated in subsequent decisions of the ECJ and, in particular, in the *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard* decisions. Thus, in the *CNL-SUCAL v. HAG* decision, the Court observed that "the owner of an industrial property right protected by the legislation of a Member State cannot rely on that legislation to prevent the importation or marketing of a product which has been

[181] See, in relation to the exhaustion rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, *infra* Sect. 9.3.

lawfully marketed in another Member State by the owner of the right himself, with his consent, or by a person economically or legally dependent on him".[182] Also, in the *IHT Internationale Heiztechnik v. Ideal-Standard* decision, the Court noted that "Articles 30 and 36 thus debar the application of national laws which allow recourse to trade-mark rights in order to prevent the free movement of a product bearing a trade mark whose use is under unitary control".[183]

The doctrine of Community-wide exhaustion of trademark rights was incorporated into both Directive 89/104/EEC and Regulation (EC) 40/94 with regard to national and Community, respectively, trademarks. Today, the principle of Union-wide exhaustion of rights[184] is established with respect to national and Community trademarks in Directive 2008/95/EC and Regulation (EC) 207/2009, respectively.

7.4 Parallel Imports from Third Countries (Outside the EEC)

7.4.1 Parallel Imports from Countries Not Associated with the European Community (Now European Union) by Virtue of a Free Trade Agreement

According to the wording of Article 30 of the EEC Treaty (now Article 34 of the TFEU), the prohibition of "measures having equivalent effect" within the meaning of that Article referred only to imports between Member States of the European Community and not imports between third countries (outside the Community) and Member States.

In the *EMI Records v. CBS United Kingdom* judgment, the Court held that "the exercise of a trade-mark right in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not come under the prohibitions set out in Article 30 et. seq. of the Treaty [now Article 34 et. seq. of the Treaty]".[185] This position was justified on the ground that "in such circumstances the exercise of a trade-mark right does not in fact jeopardize the unity of the

[182] Case C-10/89, n. 166 above, para. 12.

[183] Case C-9/93, n. 167 above, para. 39.

[184] After the European Union has succeeded and replaced the European Community [by virtue of Article 1, subparagraph 3 of the TEU, as replaced by the Lisbon Treaty (signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009)], the term "Union-wide exhaustion of trademark rights" seems more appropriate than the term "Community-wide exhaustion of trademark rights".

[185] Case C-51/75, *EMI Records Limited v. CBS United Kingdom Limited*, [1976] ECR 811, para. 10.

Common Market which Article 30 et. seq. of the Treaty [now Article 34 et. seq. of the Treaty] are intended to ensure".[186]

The judgment in *EMI Records v. CBS United Kingdom* was the first decision in which the ECJ decided on the legality of exercising a trademark right for the purpose of prohibiting the importation and marketing of products originating in a third country (outside the Community). However, in the above-mentioned judgment, the ECJ did not take a position on whether a trademark proprietor could oppose parallel imports of products bearing his trademark that had not been put on the market by him or with his consent in the Community.[187] The statements made by the ECJ in *EMI Records v. CBS United Kingdom* did not cover, that is to say, the legality of parallel trade in trademarked products between a third country and a Member State of the Community. However, in the light of those statements, legal literature came out unanimously in favour of allowing trademark proprietors to oppose parallel imports of products bearing their trademarks that were not put on the market by themselves or with their consent in the Community on the ground that prohibitions of parallel imports of products originating in third countries were not able to undermine the goal of ensuring the establishment and functioning of a common market and, by extension, the effet utile of Article 30 of the EEC Treaty (now Article 34 of the TFEU).[188]

Before EC secondary law relating to trademarks [Directive 89/104/EEC and Regulation (EC) 40/94] came into force, legal doctrine and the ECJ had rather accepted then that it was possible for trademark owners to prohibit parallel imports from countries outside the Community. As it will be discussed in a following chapter of this Part, the possibility of trademark proprietors opposing parallel imports of products originating in third countries was explicitly confirmed by the Court in its judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, where the Court judged that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] precludes the Member States from recognising, through legislation or their courts' case law, a regime of international exhaustion of trademark rights, namely a regime under which trademark proprietors

[186] Case C-51/75, n. 185 above, para. 11.

[187] Fezer (2009), § 24 MarkenG, p. 1690, Nr. 181.

[188] See Baumbach and Hefermehl (1985), § 15 WZG, p. 690, Nr. 86; Fezer (1992), p. 163. Such an approach was also favoured by the competition considerations contained in the *EMI Records v. CBS United Kingdom* decision. In particular, according to paragraph 28 of that decision: "A restrictive agreement between traders within the Common Market and competitors in third countries that would bring about an isolation of the Common Market as a whole which, in the territory of the Community, would reduce the supply of products originating in third countries and similar to those protected by a mark within the Community, might be of such a nature as to affect adversely the conditions of competition within the Common Market". Also, it is worth noting another paragraph of the decision in question where the Court noted that the permissible consequences flowing from the protection of the trademark include that an undertaking that is subsidiary of an undertaking established in a Member State of the Community (now EU) must, for the purposes of its exports to that Member State, obliterate its trademark on the products concerned and perhaps apply a different trademark (para. 34).

would not be able to oppose parallel imports of products that would not have been put on the market by themselves or with their consent in the European Economic Area.[189]

7.4.2 Parallel Imports from Countries Associated with the European Community (Now European Union) by Virtue of a Free Trade Agreement

Free Trade Agreements between the Community and third countries often included binding provisions of an identical or similar content to that of Articles 30–36 of the EEC Treaty (now Articles 34–36 of the TFEU) or provisions that made reference to the content of the aforementioned Articles or, finally, provisions by virtue of which the content of the Articles in question formed an integral part of the above-mentioned Agreements.[190] Another question, therefore, that the ECJ was called on to answer was whether, in assessing the legality of parallel imports from a country associated with the Community by virtue of a Free Trade Agreement, the provisions of that Agreement concerning the free movement of goods were to be interpreted in the light of the case law developed by the ECJ on the legality of the exercise of the trademark right under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).

The above-mentioned question was answered by the Court in its decision in *Polydor and others v. Harlequin and others*.[191] In the *Polydor and others v. Harlequin and others* case, the dispute was about the legality of a parallel import of copyrighted items that had been put on the market in Portugal, which at that time was associated with the Community by virtue of a Free Trade Agreement. In its judgment, the Court stated that the interpretation of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) adopted in a previous case involving the legality of a parallel import of trademarked products between Member States (*Terrapin v. Terranova*) could not apply to the provisions of the Agreement between the EEC and Portugal of 22 July 1972 on free movement of goods.[192] As the Court noted, "it is apparent from an examination of the Agreement [between the EEC and Portugal of 22 July 1972] that although it makes provision for the unconditional abolition of certain restrictions on trade between the Community and Portugal, such as quantitative restrictions and measures having equivalent effect, it does not have the same purpose as the EEC Treaty, inasmuch as the latter,

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[189] For the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment, see *infra* Sect. 9.4.4.2.

[190] Fezer (2009), § 24 MarkenG, p. 1691, Nr. 182; Hefermehl and Fezer (1979), p. 155.

[191] Case C-270/80, *Polydor Limited and RSO Records Inc. v. Harlequin Records Shops Limited and Simons Records Limited*, [1982] ECR 329.

[192] Case C-270/80, n. 191 above, paras 17–18.

as has been stated above, seeks to create a single market reproducing as closely as possible the conditions of a domestic market".[193] On the basis of the latter statement, the Court further held that "in the context of the Agreement [between the EEC and Portugal of 22 July 1972] restrictions on trade in goods may be considered to be justified on the ground of the protection of industrial and commercial property in a situation in which their justification would not be possible within the Community".[194]

In the light of the foregoing, the non-uniform interpretation of Article 30 et. seq. of the EEC Treaty (now Article 34 et. seq. of the TFEU) and the free movement of goods provisions of the Free Trade Agreement between the EEC and Portugal of 22 July 1972 in *Polydor and others v. Harlequin and others* seems that it was prompted by the different purposes of the EEC Treaty and that Agreement. However, this conclusion is invalidated, at least partially, by another remark by the Court in the judgment under consideration, namely that a different interpretation of Article 30 et. seq. of the EEC Treaty (now Article 34 et. seq. of the TFEU) and the free movement of goods provisions of the Free Trade Agreement between the EEC and Portugal of 22 July 1972 "is all the more necessary inasmuch as the instruments which the Community has at its disposal in order to achieve the uniform application of Community law and the progressive abolition of legislative disparities within the Common Market have no equivalent in the context of the relations between the Community and Portugal".[195] As has been aptly observed, the aforementioned remark allows us to assert that the different interpretation of Article 30 et. seq. of the EEC Treaty (now Article 34 et. seq. of the TFEU) and the free movement of goods provisions of the Free Trade Agreement between the EEC and Portugal of 22 July 1972 in the decision in *Polydor and others v. Harlequin and others* was prompted by considerations relating to a principle of international law, i.e. the principle of reciprocity, rather than by the different purposes of the EEC Treaty and that Agreement.[196] Indeed, in the light of that remark, it could be argued that the Court would have uniformly interpreted Article 30 et. seq. of the EEC Treaty (now Article 34 et. seq. of the TFEU) and the free movement of goods provisions of the Free Trade Agreement between the EEC and Portugal of 22 July 1972 and, by extension, would have accepted the legitimacy of the parallel importation at issue, if it had had good reasons to assume that the Portuguese courts would rule in favour of the legality of parallel imports from Member States of the Community. This implicit application of the principle of reciprocity in assessing the legality of a parallel importation reflects a protectionist view in favour of undertakings operating in the Member States of the Community and, more specifically, the view that the Community (now EU) cannot recognise the legality of parallel imports from third

[193] Case C-270/80, n. 191 above, para. 18.
[194] Case C-270/80, n. 191 above, para. 19.
[195] Case C-270/80, n. 191 above, para. 20.
[196] Monroe (1982), p. 861; so also Keeling (2003), p. 122.

countries-major trading partners if the latter do not recognise the legality of parallel imports from its Member States.[197]

Among legal authors, there was no single line concerning the question of whether trademark owners could prevent parallel imports of products originating in third countries associated with the Community (now European Union) by virtue of Free Trade Agreements. This was rather due to the particular content or particular purpose of each such Agreement.[198] However, according to some legal authors, the case law established in the decision in *Polydor and others v. Harlequin and others* could not apply to the so-called Europe Agreements provided for in Article 238 of the EEC Treaty (now Article 217 of the TFEU) on the ground that such Agreements provide for a deeper and more comprehensive degree of integration than other Agreements between the Community (now European Union) and third countries.[199] Thus, in some authors' view, trademark holders could not oppose parallel imports of products put on the market by themselves or with their consent in third countries associated with the Community (now European Union) by virtue of Europe Agreements.

In any case, in the ECJ's decision in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, it was confirmed, as already mentioned, under Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] that trademark proprietors are in a position to exclude parallel imports of products originating in countries outside the EEA. In view of the fact that no reservation was expressed in relation to trademarked products that have been put on the market in countries associated with the Community (now European Union) under Europe Agreements, trademark proprietors may, in the light of Article 7 (1) of Directive 2008/95/EC, exclude parallel imports of such goods too.[200]

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[197] As will be shown in a next chapter of this Part, considerations concerning protectionism of undertakings operating in the Community resulted in non-incorporation of the principle of international exhaustion of rights into Directive 89/104/EC and Regulation (EC) 40/94 and now into Directive 2008/95/EC and Regulation (EC) 207/2009.

[198] See Fezer (2009), § 24 MarkenG, p. 1691, Nr. 182; Hefermehl and Fezer (1979), pp. 155–156; Tilmann (1975), pp. 484–486.

[199] See Litpher (1997), pp. 240–241; Soltysinski (1996), pp. 323–324. Cf. also Demaret (1987), p. 10, in relation to patented or copyrighted products.

[200] See *supra* n. 189.

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Chapter 8
The Doctrine of Exhaustion of Trademark Rights in European Union Law and the National Legislations of EU Member States

8.1 The Doctrine of Exhaustion of Trademark Rights in European Union Law

8.1.1 The Framework for Reflection on the Regulation of the Issue of the Legality of Parallel Imports of Trademarked Goods in Community Law

If for the European Court of Justice ("ECJ" or "Court") the recognition of the legality, in principle, of parallel trade in trademarked goods between Member States of the European Community ("Member States"/now Member States of the European Union) in the light of a rule of Community-wide exhaustion of trademark rights based on Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) resulted from its commitment to ensure that, in the interpretation and application of the EEC Treaty, the law was observed (Article 164 of the EEC Treaty, now Article 19 of the TEU[1]), the inclusion of such a rule in a Community legal framework for the protection of trademarks was no easy task. This was mainly due to the different approaches adopted by the trademark laws of the founding Member States of the European Community in relation to the content of the trademark right, namely the rights conferred by the trademark and the limitations of the right in question. Within the previously mentioned approaches, one should search for the starting point for reflection on the regulation of the content of the trademark right by the Community legislator, so that the exercise of that right

[1] Article 220 of the EC Treaty (ex-Article 164 of the EEC Treaty) was in substance replaced after the entry into force of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009) by Article 19 of the TEU. See Annex to the Lisbon Treaty (Table of Equivalences referred to in Article 5 of the Treaty of Lisbon) (C 306/202).

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would not deprive Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) of their practical effect.

Indeed, it follows from a comparison of the above-mentioned laws that the main obstacle that had to be overcome in order to incorporate a rule that would regulate the problem of the legality of parallel imports into a Community trademark legal framework was that two opposing approaches were evident with respect to the content of the right flowing from the trademark. But, in addition, differences between the laws in question existed on the legal treatment of parallel imports of trademarked goods itself.

According to the first of the foregoing approaches, followed by the German and Italian laws, the trademark right was just a set of powers explicitly set out in law, which could be exercised exclusively by the trademark proprietor.

Thus, in accordance with Article 15 of the German law on trademarks of 1936 (WZG), the exclusive right flowing from the trademark granted the trademark proprietor the following three exclusive legal powers: firstly, the power to affix the trademark to goods; secondly, the power to put on the market for the first time goods bearing the trademark; and, thirdly, the power to use the trademark in advertising.[2] The German law on trademarks of 1936 granted, that is to say, the proprietor of a trademark not a universal right, to which any use of the sign of which the trademark consisted could be subject, but a set of powers explicitly set out in that law. Additionally, in accordance with the settled case law of the German courts in the first half of the twentieth century, trademark law aimed, in particular, to protect the origin function of trademarks, while the other functions of the trademark (guarantee and advertising functions) could be protected primarily under provisions of the civil law (BGB) and unfair competition legislation (UWG).[3] The foregoing context was favourable for the recognition by German case law of the doctrine of international exhaustion of trademark rights.[4] Indeed, the exhaustive list of the legal powers conferred by the trademark right in the German trademark law made sure that the proprietor of a trademark could not prohibit the resale of goods bearing the trademark that had been put on the market in any country by him or with his consent.[5] Furthermore, the limitation of the legal protection of the trademark to the origin function implied that proprietors of trademarks could not oppose parallel imports by claiming that those imports entail an adverse effect on the guarantee or the advertising function of the trademarks borne by goods imported in parallel.[6] Besides, the exhaustion doctrine had already been recognised since the beginning of the twentieth century by the case law of the German Supreme Court not only in

[2] See Baumbach and Hefermehl (1985), § 15 WZG, p. 641, Nr. 1; Litpher (1997), pp. 132–133.

[3] See, in detail, Litpher (1997), pp. 133–136, with references to the relevant case law; Waelbroeck (1964), p. 338.

[4] Fezer (2009), § 24 MarkenG, pp. 1628–1629, Nr. 15; Waelbroeck (1964), pp. 338 and 343; Wertheimer (1967), p. 639.

[5] Cf. Waelbroeck (1964), p. 338.

[6] Wertheimer (1967), p. 640.

regard to the trademark right but also in regard to the patent right and the right to distribute items protected by copyright.[7] Exemption to the doctrine of exhaustion of rights was recognised by German case law only in cases where the condition of trademarked goods was changed after they had been put on the market on the ground that in such cases there was a real risk for the origin function of the trademark to be adversely affected.[8]

Similar to the approach of the German Law on trademarks of 1936 was the approach of the corresponding Italian Law of 1942. More specifically, according to Article 1 of the aforementioned law, the proprietor of a trademark had a set of legal powers explicitly set out in that Article and not of a universal right over the sign of which the trademark consisted.[9] Additionally, in the view of the Italian Supreme Court, the protection of trademark rights aimed primarily to prevent the risk of confusion as to the origin of a product, so that the resale of a trademarked good by an independent trader was not seen as an infringement of the trademark borne by the good.[10] Such an approach, however, did not prevent the Italian Supreme Court from accepting that parallel imports could be excluded in cases where the owners of the trademarks in the exporting country and in Italy were different companies belonging to the same international group or where the trademark had been transferred (in Italy) or, finally, where an exclusive trademark licence had been granted.[11]

According to the second of the foregoing approaches, followed by French law and the Uniform Law of Benelux 1962, the trademark right constituted not only an exclusive but also a universal right to the content of which any use of the sign of which the trademark consisted was subject.

In particular, in the light of the French law on trademarks of 1964, the trademark right was to be perceived as a property right, which allowed its proprietor to oppose the use of the sign of which the trademark was comprised by a third party, regardless of whether such opposition was necessary to safeguard the function of origin of the trademark. This is inferred, on one hand, from the use in the text of the above-mentioned law of the term "property" to render the right flowing from the sign of which the trademark was comprised and, on the other hand, from the fact that in the above-mentioned law there was no definition of that term.[12] An unavoidable consequence of such an approach was the non-development in the circles of French academic circles of a noteworthy scientific discourse regarding the

[7] See *supra* Sect. 1.4.2.4.

[8] See *supra* Sect. 1.4.2.4.

[9] See Litpher (1997), p. 150.

[10] See Waelbroeck (1964), pp. 338 and 343–344; Wertheimer (1967), p. 640.

[11] See Möschel (1968), pp. 97–101; Wertheimer (1967), p. 656.

[12] See Stuckel (1991), p. 50. This conception of a universal and absolute right to the trademark, which could be compared with the right of property, was reflected in 1919 by way of an obiter dictum in French case law as follows: "La propriété d'une marque régulièrement déposée est absolue, elle s'étend á l'ensemble du territoire français et confère à celui qui en est investi un droit de revendication contre tout ceux qui l'usurpent, sous quelque mode et de quelque manière que ce soit". See Stuckel (1991), p. 41, where further case law is cited.

functions of the trademark[13] and, furthermore, the non-formulation by French academic circles and case law of a doctrine of exhaustion of trademark rights.[14] On the contrary, according to the view that was dominant in the middle of the twentieth century in French legal literature and case law, a trademark granted its proprietor an unlimited—with the reservation of an opposing provision in the law—right that allowed him to control and, by extension, to prohibit any use of the sign of which the trademark was comprised, without the consent of the proprietor, including also the use of that sign by an independent trader.[15] Finally, it is noted that the former case law of the French courts accepted the prohibition of parallel imports of trademarked goods in the light of the law on unfair competition, with the rationale that such a practice entails disruption to exclusive distribution channels.[16]

Furthermore, according to the provision of Article 13 A (1) of the Uniform Law of Benelux 1962, the proprietor of a trademark had a universal and absolute right over the sign of which the trademark was comprised.[17] That right granted the proprietor the power to oppose any use of the sign of which the trademark was comprised by a third party when that use concerned identical or similar products (Nr. 1), while in some cases, even if it did not concern identical or similar products (Nr. 2).[18] Despite the fact that the Uniform Law of Benelux 1962 provided trademark proprietors with a universal and unlimited, in principle, right, a provision introducing (international) exhaustion of trademark rights was set out in the text of that law. Specifically, according to Article 13A (2) of that law, the exclusive right flowing from the trademark did not include the right to prohibit the use of the trademark for products put on the market (in any country) by the proprietor of the trademark or a licensee, unless the condition of the products was altered after they had been put on the market.[19]

The authors of Directive 89/104/EEC and Regulation (EC) 40/94, namely of the first Community legal framework on trademarks,[20] were called on, therefore, to choose for the shaping of the content of the right to the trademark between two opposing views. Specifically, they were called on to choose between the view prevailing in the German and Italian Laws, which granted the proprietor of the

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[13] Jackermeier (1984), p. 189; Stuckel (1991), p. 53.

[14] See Kunz-Hallstein (1992), p. 89; Stuckel (1991), pp. 56–57.

[15] This finding is confirmed also by the provision of Article 422-2° Code penal, which imposed fines and prison sentences for those who used trademarks without the consent of their proprietors, regardless of whether there was a risk of confusion. See Stuckel (1991), pp. 54–55.

[16] See Möschel (1968), pp. 67–70.

[17] See Verkade (1992), p. 93.

[18] See Verkade (1986).

[19] According to the provision of Article 13 A (2) of the Uniform Law of Benelux of 1962: “The exclusive right to the trademark does not include the right to prevent the use of this trademark for products which the owner or his licensee has put into circulation under said trademark unless the condition of the products has been altered”. See Waelbroeck (1964), p. 339.

[20] For the development of Community law on trademarks until Directive 89/104/EEC and Regulation (EC) 40/94, see Krauß (1999), pp. 43–46.

trademark a set of powers aimed principally to safeguard the function of origin of the trademark, and the view prevailing in French Law and the Uniform Law of Benelux 1962, which granted the proprietor of the trademark a universal and absolute property right, for the determination of the content of which the essential function of the trademark did not appear to matter much.[21]

8.1.2 The Choice of the Community Legislator

The Community legislator ultimately preferred to follow the middle way of compromising the opposing views deduced from the legislations on trademarks of the founding Member States with regard to the content of the right conferred by the trademark. He also followed the middle road with respect to the issue of exhaustion of the trademark right, by not adopting the doctrines of national or international exhaustion but by preferring the doctrine of Community-wide exhaustion of the trademark right. The relevant legislative framework was originally imprinted in Directive 89/104/EEC "to approximate the laws of the Member States relating to trade marks"[22] and Regulation 40/94/EC "on community trademark".[23] Nowadays it is imprinted in Directive 2008/95/EC "to approximate the laws of the Member States relating to trade marks"[24] and Regulation (EC) 207/2009 "on community trademark".[25]

Therefore, according to the provisions of Article 5 (1)–(3) of Directive 89/104/EEC and now Article 5 (1)–(3) of Directive 2008/95/EC:

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

   (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
   (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trade mark.

[21] So Litpher (1997), p. 152. Cf. also Waelbroeck (1964), pp. 339–340.

[22] OJ L 40/1 of 11.02.1989.

[23] OJ L 11/1 of 14.01.1994.

[24] OJ L 299/25 of 08.11.2008. Directive 2008/95/EC repealed and replaced Directive 89/104/EEC. References to Directive 89/104/EEC shall be construed as references to Directive 2008/95/EC and shall be read in accordance with the correlation table in Annex II to Directive 2008/95/EC (see Article 17 of Directive 2008/95/EC).

[25] OJ L 78/1 of 24.03.2009. Regulation (EC) 207/2009 repealed and replaced Regulation (EC) 40/94. References to Regulation (EC) 40/94 shall be construed as references to Regulation (EC) 207/2009 and shall be read in accordance with the correlation table in Annex II to Regulation (EC) 207/2009 (see Article 166 of Regulation (EC) 207/2009).

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.
3. The following, inter alia, may be prohibited under paragraphs 1 and 2:

   (a) affixing the sign to the goods or to the packaging thereof;
   (b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;
   (c) importing or exporting the goods under the sign;
   (d) using the sign on business papers and in advertising.

Furthermore, according to the provisions of Article 9 (1) and (2) of Regulation (EC) 40/94 and now Article 9 (1) and (2) of Regulation (EC) 207/2009:

A Community trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the Community trade mark in relation to goods or services which are identical with those for which the Community trade mark is registered;
(b) any sign where, because of its identity with, or similarity to, the Community trade mark and the identity or similarity of the goods or services covered by the Community trade mark and the sign, there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association between the sign and the trade mark;
(c) any sign which is identical with, or similar to, the Community trade mark in relation to goods or services which are not similar to those for which the Community trade mark is registered, where the latter has a reputation in the Community and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the Community trade mark.

2. The following, inter alia, may be prohibited under paragraph 1:

(a) affixing the sign to the goods or to the packaging thereof;
(b) offering the goods, putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;
(c) importing or exporting the goods under that sign;
(d) using the sign on business papers and in advertising.

Also, in accordance with the Preamble to Directive 89/104/EEC and now the Preamble to Directive 2008/95/EC, “the function of [the protection afforded by the registered trademark] is in particular to guarantee the trade mark as an indication of origin”,[26] while, in accordance with the Preamble to Regulation (EC) 40/94 and now the Preamble to Regulation (EC) 207/2009, “the function of [the protection

[26] Recital 10 in the Preamble to Directive 89/104/EEC and now Recital 11 in the Preamble to Directive 2008/95/EC.

afforded by a Community trademark] is in particular to guarantee the trade mark as an indication of origin".[27]

The following findings may be deduced from the aforementioned provisions.

Firstly, the Community legislator followed the concept of a universal and exclusive right to the trademark, which was adopted by the French Law on trademarks of 1964 and the Uniform Law of Benelux 1962, since the listing of the powers afforded by the provisions of Articles 5 (3) of Directive 2008/95/EC and 9 (2) of Regulation (EC) 207/2009 to the proprietor of a national or Community, respectively, trademark is indicative.[28] The proprietor of a national or a Community trademark has, that is to say, in principle, an exclusive right to use the sign of which the trademark is comprised.

Secondly, the protection of the right to the national trademark and the right to the Community trademark is intended, principally, to safeguard the function of the trademark to indicate the origin of the product bearing the trademark or of the service provided under the trademark from a certain (commercial or industrial) undertaking and to distinguish that product or that service from the products and services of other undertakings (function of origin).[29] The other functions of an economic nature developed by the trademark in business transactions (especially the guarantee and advertising functions) are not ignored, as it is reaffirmed by the term "in particular" used in the relevant recitals in the Preambles to Directive 2008/95/EC and Regulation (EC) 207/2009.[30] This approach reflects not only the positions expressed by the ECJ in relation to the protection of the specific subject matter of trademark rights[31] but also the approach expressed in the German and Italian laws on trademarks, according to which the proprietor of a trademark was able to invoke trademark protection, normally, in cases where there was a likelihood of confusion as to the origin of goods bearing the trademark. The Community legislation did not provide for sanctions for infringements of the rights conferred by the national trademark and the Community trademark. It provided, however, that the exclusive and absolute protection of national and Community trademark rights must, under certain conditions, give way to free competition and free movement of goods inside the Common market.

The fact that the exclusive and absolute protection of national and Community trademark rights must, under certain conditions, give way to free competition inside

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[27] Recital 7 in the Preamble to Regulation (EC) 40/94 and now Recital 8 in the Preamble of Regulation (EC) 207/2009.

[28] So also Litpher (1997), p. 152.

[29] See Case C-206/01, *Arsenal Football Club plc v. Matthew Reed*, [2002] ECR I-10273, para. 48, where it is noted: "the essential function of a trade mark is to guarantee the identity of origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality".

[30] So also Grigoriadis (2006), p. 24.

[31] On the doctrine of "specific subject matter" of trademark rights, see *supra* Sect. 7.3.3.

the Common market is established, in particular, in the provisions of Article 6 (1) and (2) of Directive 89/104/EEC [now Article 6 (1) and (2) of Directive 2008/95/EC] and of Article 12 of Regulation (EC) 40/94 [now Article 12 of Regulation (EC) 207/2009].

According to the provisions of Article 6 (1) and (2) of Directive 89/104/EEC and now of Article 6 (1) and (2) of Directive 2008/95/EC:

1. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade:

   a) his own name or address;
   b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services;
   c) the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts;
   provided he uses them in accordance with honest practices in industrial or commercial matters.

2. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade, an earlier right which only applies in a particular locality if that right is recognized by the laws of the Member State in question and within the limits of the territory in which it is recognized.

Also, according to the provisions of Article 12 of Regulation (EC) 40/94 and now of Article 12 of Regulation (EC) 207/2009:

A Community trade mark shall not entitle the proprietor to prohibit a third party from using in the course of trade:

(a) his own name or address;
(b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of the goods or of rendering of the service, or other characteristics of the goods or service;
(c) the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts,
provided he uses them in accordance with honest practices in industrial or commercial matters.

Moreover, the provisions of Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) and 13 of Regulation (EC) 40/94 [now Article 13 of Regulation (EC) 207/2009] establish that the exclusive and absolute protection of national and Community trademark rights must, under certain conditions, give way to free movement of goods inside the Common market:

1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.
2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 incorporate the doctrine of “Community-wide” exhaustion of the exclusive right flowing from the trademark, developed by the case law of the ECJ.[32] The adjectival expression "Community-wide" or more correctly now, after the European Union has replaced and succeeded by virtue of the Lisbon Treaty the European Community,[33] "Union-wide" means exactly that the exhaustion of the rights conferred by a national or a Community trademark requires the putting on the market of a good bearing the trademark in a Member State of the European Union (ex-European Community) by the proprietor of the trademark or with his consent.[34,35]

[32] It is clarified that the wording of Articles 7 of Directive 89/104/EEC and 13 of Regulation (EC) 40/94 is identical to the wording of Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009, correspondingly.

[33] According to Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty, "The [European] Union shall replace and succeed the European Community".

[34] It is noted that the putting on the market of a trademarked good in a Member State of the European Free Trade Association (EFTA)/European Economic Area (EEA) is considered to be equal to the putting on the market of a trademarked good in a Member State of the European Union. See Article 2 (1) of Protocol 28 to the EEA Agreement and, in detail, *infra* Sect. 9.4.1.

[35] The following provisions introduce the principle of Union-wide exhaustion in relation to other intellectual property rights:

a) Article 4 of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ L 167/10, 22.06.2001): Union-wide exhaustion of the right to distribute the original or copies of a work;
b) Article 9 (2) of Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version) (OJ L 376/28 of 27.12.2006): Union-wide exhaustion of the right to distribute a good protected by rights related to copyright;
c) Article 4 (2) of Directive 2009/24/EC of the European Parliament and of the Council of 23 April 2009 on the legal protection of computer programs (codified version) (OJ L 111/16, 05.05.2009): Union-wide exhaustion of the right to distribute copies of computer programs;
d) Articles 5 point (c) and 7 (2) point. (b) of Directive 96/9/EEC by the European Parliament and Council on March 11, 1996, on the legal protection of databases (OJ L 077/20 of 27/03/1996): Union-wide exhaustion of the right to distribute copies of a database;
e) Article 15 of Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs (OJ L 289/28, 28/10/1998): Union-wide exhaustion of the rights conferred by a national design right upon registration;
f) Article 21 of Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs (OJ L 3/1, 05.01.2002): Union-wide exhaustion of the rights conferred by a Community design;
g) Article 16 of Council Regulation (EC) No 2100/94 of 27 July 1994 on Community plant variety rights (OJ L 227/1, 01/09/1994): Union-wide exhaustion of the Community plant variety right.

On the other hand, the following rights are explicitly exempted from the principle of Union-wide exhaustion:

a) the right to communicate to the public or make available to the public works or other protected subject matter [Article 3 (2) of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society (OJ L 167/10, 22.06.2001)] and
b) the right to authorise or prohibit the rental and lending of originals and copies of copyrighted works and the subject matter of related rights protection Article 9 (2) of Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version) (OJ L 376/28 of 27.12.2006).

8.1.3 *Interpretative Approach to Article 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009*

8.1.3.1 Interpretative Approach to Article 7 of Directive 2008/95/EC

In the Light of EU Primary Law

According to the case law of the European Court of Justice ("ECJ" or "Court"), Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) comprehensively regulates the question of the exhaustion of the right flowing from the national trademark with respect to goods that have been put on the market in the European Community (now European Union).[36]

However, the fact that Article 7 of Directive 2008/95/EC comprehensively regulates the issue of the exhaustion of the national trademark right does not mean that the ECJ's case law developed prior to the entry into force of Directive 89/104/EEC regarding the legitimacy of the exercise of the right to the trademark under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) has lost its relevance. On the contrary, indeed, in accordance with the ECJ's case law, "Like any secondary legislation, the directive [89/104/EEC] must be interpreted in the light of the Treaty rules on the free movement of goods and in particular Article 36 [now Article 30 of the EC Treaty]".[37] The case law of the ECJ itself, therefore, confirms that Article 7 of Directive 2008/95/EC must, in view of the superiority of primary over secondary European Union law, be interpreted in the light of the case law pertaining to the legality of parallel imports of trademarked goods developed by the Court under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).

[36] Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457, para. 26.

[37] Joined Cases C-427/93, C-429/93 and C-436/93, n. 36 above, para. 27; Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV*, [1997] ECR I-6013, para. 37; Case C-352/95, *Phytheron International SA v. Jean Bourdon SA*, [1997] ECR I-1729, para. 18; cf. also Joined Opinion of Advocate General Jacobs in Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*; Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*; Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3457, point 54. See also Carboni (1997), p. 199; Fezer (2009), § 24 MarkenG, pp. 1671–1672, Nr. 126, who criticises the opposite view expressed in the statement of reasons for the MarkenG of 1994 (current German trademark law); Sack (1999), p. 1091.

In the Light of International Agreements

According to Article 1, subparagraph 3 of the TEU, "the Union shall replace and succeed the European Community". The European Union is bound, therefore, by the International Treaties and Agreements signed by the European Community as successor of the latter.

Moreover, according to ECJ's case law, "the primacy of international agreements concluded by the Community over secondary Community legislation requires that the latter be interpreted, in so far as is possible, in conformity with those agreements".[38] Article 7 of Directive 2008/95/EC must, therefore, be interpreted, in so far as is possible, in conformity with International Agreements signed by the European Community.

From the International Agreements signed by the European Community, the only ones touching on the discourse regarding the legality of parallel imports of trademarked products are two of those included in the Appendices to the WTO Agreement "Multilateral Trade Agreements": The TRIPs Agreement and the GATT 1994, which entered into force upon the establishment of the World Trade Organization (01.01.1995).[39] As will be analysed in the following chapter of the present part, an issue arises regarding the conformity with GATT/WTO law of the prohibition of the principle of international exhaustion of trademark rights pursuant to the provision of Article 7 (1) of Directive 2008/95/EC.[40]

8.1.3.2 Interpretative Approach to Article 13 of Regulation (EC) 207/2009

The Community trademark is an achievement of European integration. Thus, it is reasonable for the issues related to the Community trademark to be governed only

[38] Case C-335/05, *Řízení Letového Provozu ČR, s. p. v. Bundesamt für Finanzen*, [2007] ECR I-4307, para. 16; Case C-61/94, *Commission of the European Communities v. Federal Republic of Germany*, [1996] ECR I-3989, para. 52; Case C-286/02, *Bellio F.lli Srl v. Prefettura di Treviso*, [2004] ECR I-3465, para. 33; Joined Cases C-447/05 & C-448/05, *Thomson Multimedia Sales Europe (C-447/05) and Vestel France (C-448/05) v. Administration des douanes et droits indirects*, [2007] ECR I-2049, para. 30; Case C-76/00 P., *Petrotub SA and Republica SA v. Council of the European Union*, [2003] ECR I-79, para. 57; Case C-341/95, *Gianni Bettati v. Safety Hi-Tech Srl.*, [1998] ECR I-4355, para. 20.

[39] With respect to the TRIPs Agreement, it is worth noting that the Court has repeatedly stressed that Community (now EU) trademark law must be interpreted as far as possible in the light of the wording and purpose of that Agreement. See Case C-245/02, *Anheuser-Busch Inc. v. Budějovický Budvar, národní podnik*, [2004] ECR I-10989, para. 42; Case C-49/02, *Brasserie nationale SA (anc. Brasseries Funck-Bricher et Bofferding), Brasserie Jules Simon et Cie SCS and Brasserie Battin SNC v. Commission of the European Communities*, [2004] ECR I-6129, para. 20; Case C-53/96, *Hermès International (a partnership limited by shares) v. FHT Marketing Choice BV*, [1998] ECR I-3603, para. 28.

[40] *See infra* Sect. 9.4.6.3.

by the provisions of Regulation (EC) 207/2009, which establishes the Community trademark. However, the provisions of Regulation (EC) 207/2009 and the provisions of Directive 2008/95/EC must be interpreted in the same manner.[41] This position was explicitly reaffirmed by the Court in a recent ruling with respect to the exhaustion of rights provisions set out in those legal instruments, where it was accepted that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and Article 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009] must be interpreted in the same way, except for the definition of the territory in which the putting on the market of a good must take place for there to be exhaustion of the right flowing from the trademark borne by the good.[42] According to the view of the Court, a uniform interpretation of those provisions is based on the fact that their wording is in essence the same (except for the definition of the territory in which the putting on the market of the trademarked good must take place),[43] while, additionally, there are no other contextual factors or factors linked to the purpose of the provisions requiring them to be interpreted differently.[44]

Based on the case law of the Court, therefore, the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 must be interpreted in the same manner. The same must be admitted also with respect to the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009, namely the provisions that exclude the applicability of the doctrine of Union-wide exhaustion of national and Community trademark rights, if there are "legitimate reasons" justifying prohibitions on parallel imports of trademarked goods. This is because the justification put forward by the Court for a uniform interpretation of the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 obviously also applies to the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.

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[41] So also Seville (2004), p. 1014; cf. also Opinion of Advocate General Jacobs in Case C-291/00, *LTJ Diffusion SA v. Sadas Vertbaudet SA*, [2003] ECR I-2799, points 24–28.

[42] Case C-127/09, *Coty Prestige Lancaster Group GmbH v. Simex Trading AG,* [2010] ECR I-4965, para. 46.

[43] According to the provision of Article 65 (2) and Annex XVII, point 4 to the EEA Agreement, the provision of Article 7 (1) of Directive 89/104/EEC covered also trademarked goods put on the market in the Member States of the European Economic Area (EEA Member States). The same must hold true for the provision of Article 7 (1) of Directive 2008/95/EC, despite the lack of a relevant provision in "point 9" of the above-mentioned Annex, which now requires the EEA Member States to be bound by Directive 2008/95/EC. This is because the commitment of the EEA Member States to accept exhaustion of trademark rights for goods put on the market in any EEA Member State already follows from the provision of Article 2 (1) of Protocol 28 to the EEA Agreement. See *infra* Sect. 9.4.1.

[44] See *supra* n. 42.

8.2 The Doctrine of Union-Wide Exhaustion of Trademark Rights in the National Legislations of the EU Member States

8.2.1 The Situation Prior to the Adoption of Directive 89/104/EEC

Prior to the adoption of Directive 89/104/EEC, the Member States did not adopt the same approach to the issue of the legality of parallel imports of trademarked goods. Specifically, some Member States recognised (through legislation or through the case law of their courts) a regime of international exhaustion of trademark rights[45]; other Member States recognised a regime of national exhaustion of trademark rights,[46] while in some Member States the exhaustion of trademark rights regime was unclear.[47] However, none of the Member States recognised, through legislation

[45] The Member States that recognised the principle of international exhaustion of trademark rights included Germany (see, from the case law of the German Supreme Court, BGH *GRUR* 1964, 372, 373—*Maja*, with note by Wolfgang Hefermehl; Beier (1964), 205 and BGH *GRUR* 1973, 468, 471—*Cinzano*, with note by Ludwig Heydt; Beier (1973), 566); the Member States of Benelux [see, from the case law of the Supreme Courts of the Member States of Benelux, Hoge Raad (Dutch Supreme Court), *GRUR* 1957, 259—*Grundig*; Cour de Cassation (Belgian Supreme Court), *Ing.-Cons.* 1949, 31—*Email-Diamant*, as well as the provision of Article 13 A (2) of the Uniform Law of Benelux of 1962 (see for the aforesaid provision *supra* Sect. 8.1.1)]; Denmark (see the judgment cited by Kur (1991), p. 788); Austria [see, from the case law of the Austrian Supreme Court (OGH), OGH, *ÖBl* 1974, 84 = *GRUR Int.* 1971, 90—*Agfa*; OGH, *ÖBl* 1984, 24 = *GRUR Int.* 1984, 369—*Lanvin*; OGH, *ÖBl* 1991, 257 = *GRUR Int.* 1992, 467—*Spinnrad*; it is noted that the Austrian Supreme Court had initially ruled against international exhaustion of trademark rights (see OGH, *ÖBl* 1955, 67—*Nescafé*; OGH, *ÖBl* 1957, 87—*Brunswick*; OGH, *GRUR Int.* 1960, 557—*Seeburg*)]; Finland (see, from the case law of the Finish Supreme Court, Berufungsgericht Helsinki, *NIR* 1969, 96—*Felicia* and, from the more recent case law, see Berufungsgericht Helsinki, *GRUR Int.* 1994, 432 (Fin.)—*Mobil*; Berufungsgericht Helsinki, *GRUR Int.* 1994, 433 (Fin.)—*Adidas*); Sweden (see, from the case law of the Swedish Supreme Court, Höchstes Gericht, *GRUR Int.* 1968, 22 = *NIR* 1968, 404—*Polycolor*).

[46] The Member States that recognised the principle of national exhaustion of trademark rights included Spain [see Article 32 (1) of Trademark Act of 1988] and Italy (see, from the case law of the Italian Supreme Court, Corte di Cassazione, Foro Italiano, Part I col. 1021 (1957)—*Palmolive* and Corte di Cassazione, Foro Italiano, Part I col. 979 (1957)—*Colgate*; it may be deduced from the previously mentioned judgments that parallel imports of trademarked goods were considered by the Italian Supreme Court as being legal only if the trademark affixed to the parallel imported goods in Italy and in the country where the goods had been put on the market for the first time belonged to the same person and, additionally, no exclusive trademark licence had been granted in Italy).

[47] The situation regarding the exhaustion of trademark rights regime adopted in the UK and in France was unclear. For the UK, see High Court, *FSR* 1980, 85 = 11 *IIC* 1980, 372—*Revlon Inc. v. Cripps & Lee Ltd*; High Court, *RCP* 1989, 497—*Colgate Palmolive v. Markwell Finance Ltd*, from which it is inferred that the case law of the British Supreme Court possibly favoured the principle of international exhaustion of trademark rights (see Carboni 1997, p. 200; Gross 2001, pp. 228–229). As for France, it is reminded that the earlier case law of the French courts treated the

or through their courts' case law, a regime of Community-wide exhaustion of trademark rights, namely no Member State accepted the legality of parallel imports only for trademarked goods put on the market in another Member State by the trademark proprietor or with his consent. The non-recognition of a regime of Community-wide exhaustion of trademark rights by the Member States that accepted national exhaustion of those rights was, of course, a major obstacle in pursuit of the objective of the EEC Treaty to create a common market, since the principle of national exhaustion of trademark rights enabled trademark proprietors to exclude intra-Community parallel trade, without such an exclusion being able to be founded in the provision of Article 36 EEC Treaty (now Article 36 of the TFEU).[48] Directive 89/104/EEC aimed, *inter alia*, to eliminate this problem by establishing, as already mentioned,[49] the doctrine of Community-wide exhaustion of the national trademark right [Article 7 (1) of Directive 89/104/EEC]. However, the provision on exhaustion of rights set out in Directive 89/104/EEC does not only prohibit the adoption of national exhaustion of national trademark rights by the Member States. As will be analysed in detail in the next chapter, the same provision has been interpreted by the ECJ as also prohibiting the Member States from recognising a regime of international exhaustion of those rights.[50] The aforementioned findings now also apply to the provision of Article 7 (1) of Directive 2008/95/EC (see Article 17 of Directive 2008/95[51]).

8.2.2 The National Provisions of the EU Member States Relating to Exhaustion of Trademark Rights

According to Article 249, subparagraph 3 of the EC Treaty (now Article 288, subparagraph 3 of the TFEU), a Directive is binding, as to the result to be achieved, upon each Member State to which it is addressed but leaves to the

practice of parallel imports as an act of unfair competition on the ground that it entails disruption to exclusive distribution channels (see Cour d' Appel de Paris, of 22.06.1960, *GP* 1960 II, 200; Tribunal de Commerce de la Seine, of 05.03.1963, D. 1963, 367; Tribunal de Commerce de la Seine, of 09.07.1964, *GP* 1964 II, 333; Möschel 1968, pp. 67–70). That case law was changed after a judgment of the French Supreme Court (Cour de Cassation, of 17.04.1969—*Körting*, *GRUR Int.* 1971, 276).

[48] See *supra* Sect. 7.3.1.

[49] See *supra* Sect. 8.1.2.

[50] Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799. The same result was recently reached by the EFTA Court in Joined Cases E-9/07 and E-10/07, *L' Oréal Norge AS v. Per Aarskog AS and Others*, [2008] EFTA Court Reports 259, in relation to the EFTA/EEA Member States. For the aforesaid judgements, see *infra* Sects. 9.4.4.2 and 9.4.4.3.

[51] In accordance with Article 17 (2) of Directive 2008/95/EC, references to Directive 89/104/EEC shall be construed as references to Directive 2008/95/EC and shall be read in accordance with the correlation table in Annex II to Directive 2008/95/EC.

national authorities the choice of form and methods. Both the Member States existing at the time of the adoption of Directive 89/104/EEC and the Member States acceded to the Community after the adoption of the aforesaid Directive must, therefore, transpose the provisions of that Directive into their national law [see Article 17 (1) of Directive 2008/95/EC]. However, today, after Directive 2008/95/EC has repealed and replaced Directive 89/104/EEC,[52] the Member States of the European Union[53] are bound by Directive 2008/95/EC (see Article 19 of Directive 2008/95/EC).

The Member States of the European Free Trade Area/European Economic Area (EFTA/EEA)[54] were also, by virtue of Article 65 (2) and Annex XVII (Intellectual Property), point 4 to the EEA Agreement, bound by Directive 89/104/EEC. However, Annex XVII (Intellectual Property) to the EEA Agreement was recently amended by Decision of the EEA Joint Committee No. 146/2009 of 04 December 2009.[55] According to the previously mentioned Decision, point 4 of Annex XVII to the EEA Agreement no longer exists, whereas point "9h" has been inserted after point "9g", where Directive 2008/95/EC is mentioned. The EFTA/EEA Member States are therefore now bound by Directive 2008/95/EC, like the Member States of the European Union.

On the basis of Article 7 (1) of Directive 2008/95/EC, the Member States of the European Union must legislatively recognise a doctrine of Union-wide exhaustion of the national trademark right, namely they must through legislation recognise the principle of exhaustion of the rights conferred by the national trademark for goods bearing national trademarks that have been put on the market in a Member State of the European Union by the trademark proprietor or with his consent. Furthermore, by virtue of Article 2 (1) of Protocol 28 to the EEA Agreement, they must recognise the principle of exhaustion of the rights conferred by the national trademark for goods bearing national trademarks that have been put on the market in a Member State of the European Free Trade Association/European Economic Area (EFTA/EEA) by the trademark proprietor or with his consent.[56] The same trademark exhaustion regime must, in compliance with Article 2 (1) of Protocol 28 to the EEA Agreement, be recognised by the Member States of the EFTA/EEA. Moreover, the Member States of the EU and the Member States of the EFTA/EEA must,

[52] See *supra* Sect. 8.1.2.

[53] The current Member States of the European Union include Austria, Belgium, Bulgaria, France, Germany, Denmark, Greece, Estonia, United Kingdom, Ireland, Spain, Italy, Netherlands, Cyprus, Leetonia, Lithuania, Luxemburg, Malta, Hungary, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Czech Republic, Croatia and Finland.

[54] The current Member States of the European Free Trade Area (EFTA)/European Economic Area (EEA) include Iceland, Norway, and Lichtenstein.

[55] OJ L 62/43 of 11.03.2010.

[56] As analysed in the following chapter of the present Part, the putting on the market of a trademarked good in a Member State of the European Free Trade Area (EFTA)/European Economic Area (EEA) is treated as equivalent to the putting on the market of a trademarked good in a Member State of the European Union. See *infra* Sect. 9.4.1.

in compliance with Article 7 (2) of Directive 2008/95/EC, accept the exclusion of the applicability of the rule of exhaustion of the rights conferred by the national trademark where there exist “legitimate reasons” for the proprietor of a trademark to oppose further commercialisation of goods bearing the trademark, especially where the condition of the goods is changed or impaired after they have been put on the market. At this time, all the Member States of the EU have indeed transposed the provisions of Article 7 of Directive 2008/95/EC into their national laws.[57]

8.2.3 *Interpretation of the National Provisions of the Member States on the Exhaustion of Trademark Rights*

8.2.3.1 In the Light of the National Laws of the Member States Previously in Force

As was observed above, prior to the adoption of Directive 89/104/EEC, certain Member States recognised the doctrine of international exhaustion of trademark rights, while some others the doctrine of national exhaustion of those rights.[58] The doctrine of exhaustion of trademark rights was not, that is to say, unknown at least in the majority of the Member States. However, statements made by the Member States’ national courts regarding the essential elements of the rule on exhaustion of trademark rights (such as “trademarked good”, “putting on the market”, “right holder’s consent”) cannot be used when interpreting Article 7 of Directive 2008/95/EC. This is because “according to settled case-law, the need for a uniform application of European Union law and the principle of equality require that the terms of a provision of European Union law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an independent and uniform interpretation throughout the European Union; that interpretation must take into account the context of the provision and the objective of the relevant legislation”.[59] It is worth noting that, in regard to Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC), the Court has already pointed out that the concepts of “putting on the market”

[57] For the relevant provision in relation to each Member State, see Appendix to the present book.

[58] See *supra* Sect. 8.2.1.

[59] See Case C-467/08, *Padawan SL v. Sociedad General de Autores y Editores de España* (*SGAE*), [2010] ECR I-10055, para. 32. See also Case C-327/82, *Ekro BV Vee-en Vleeshandel v. Produktschap voor Vee en Vlees*, [1984] ECR 107, para. 11; Case C-287/98, *Grand Duchy of Luxemburg v. Berthe Linster, Aloyse Linster and Yvonne Linster*, [2000] ECR I-6917, para. 43; Case C-523/07, *A*, [2009] ECR I-2805, para. 34.

and "right holder's consent" must be uniformly interpreted in all the Member States of the European Union.[60]

8.2.3.2 In the Light of Article 7 of Directive 89/104/EEC (Now Article 7 of Directive 2008/95/EC)

National provisions of the EU Member States regarding exhaustion of trademark rights transpose EU law (Article 7 of Directive 89/104/EEC and now Article 7 of Directive 2008/95/EC) into national legal systems. The concepts referred to in the aforesaid provisions constitute, therefore, concepts of not only national law but also EU law. Consequently, the interpretation of the previously mentioned concepts by the national courts of the EU Member States must be consistent with the ECJ's statements related to the concepts in question, as required by the aim of Directive 89/104/EEC (now Directive 2008/95/EC) and Article 4 (3) of the TEU.[61] In accordance with Article 4 (3), subparagraph 1 of the TEU, "Pursuant to the principle of sincere cooperation, the Union and the Member States shall, in full mutual respect, assist each other in carrying out tasks which flow from the Treaties".[62]

As noted in a previous point, Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) fully regulates, pursuant to the ECJ's case law, the issue of exhaustion of the rights conferred by the trademark in relation to goods that have

[60] In relation to the concept of "putting on the market", see Case C-16/03, *Peak Holding AB v. Axolin-Elinor AB* (*formerly Handelskompaniet Factory Outlet i Löddeköpinge AB*), [2004] ECR I-11313, paras 31–32; in relation to the concept of "consent" see Case C-414/99 to 416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, paras 42–43.

[61] Article 10 of the EC Treaty (ex-Article 5 of the EEC Treaty) has been in substance replaced after the entry into force of the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community ("Lisbon Treaty", signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009) by Article 4 (3) of the TEU. See Annex to the Lisbon Treaty (Table of Equivalences referred to in Article 5 of the Treaty of Lisbon) (C 306/202).

[62] As the ECJ has frequently highlighted, national provisions of the Member States must be interpreted in such a way that it is consistent with Community (now EU) law (see indicatively Case C-14/83, *Sabine von Colson and Elisabeth Kamann v. Land Nordrhein-Westfalen*, [1984] ECR 1891, para. 26; Case C-106/89, *Marleasing SA v. La Comercial Internacional de Alimentacion SA*, [1990] ECR I-4135, para. 8; Case C-91/92, *Paola Faccini Dori v. Recreb Srl*, [1994] ECR I-3325, para. 26; Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, [1996] ECR I-3603, para. 26; Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3671, para. 12 and from legal literature Di Fabio (1990); Everling (1992); Jarass (1991); Lutter (1992); Metallinos (1994); Papanikolaou (2000), pp. 193–204, Nr. 265–282; Valtoudis (1999). German doctrine has emphasised the need for an interpretation of the German law on trademarks in the light of Directive 89/104/EEC (now Directive 2008/95/EC). See Fezer (1998), p. 5; Gloy (1994), p. 88; Kunz-Hallstein (1990), p. 749; Sack (1997), p. 1; von Gamm (1994), p. 776.

been put on the market in the European Community (now European Union).[63] The Member States' national provisions on exhaustion of trademark rights must, therefore, be interpreted exclusively in the light of the ECJ's case law developed under Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC).[64] On the contrary, an interpretation of the aforesaid provisions by direct reference to the case law developed by the Court regarding the legality of the exercise of trademark rights in the light of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) is ruled out. However, the aforementioned case law is of an indirect relevance for the interpretation of the Member States' national provisions on exhaustion of trademark rights. In this regard, the ECJ held that "Like any secondary legislation, the directive [89/104/EEC] must be interpreted in the light of the Treaty rules on the free movement of goods and in particular Article 36 [now Article 30 of the EC Treaty]".[65] Thus, although an interpretation of the Member States' national provisions on exhaustion of trademark rights based directly on the judgements issued by the ECJ with respect to the legality of parallel imports of trademarked goods prior to Directive 89/104/EEC is ruled out, nevertheless those judgments affect indirectly the meaning of the provisions in question. This indirect effect results precisely from the superiority of primary over secondary European Union law, namely from the fact that the provisions of Article 7 of Directive 2008/95/EC (ex-Article 7 of Directive 89/104/EEC) must be interpreted on the basis of those judgments.[66]

Finally, it is underlined that, in view of the fact that the national provisions of the Member States on exhaustion of trademark rights transpose EU law into national

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[63] Joined Cases C-427/93, C-429/93 and C-436/93, n. 36 above, para. 26. See section "In the Light of EU Primary Law".

[64] Joined Cases C-427/93, C-429/93 and C-436/93, n. 36 above, para. 26.

[65] Joined Cases C-427/93, C-429/93 and C-436/93, n. 36 above, para. 27; Case C-337/95, n. 37 above, para. 37; Case C-352/95, n. 37 above, para. 18; cf. also Joined Opinion of Advocate General Jacobs in Case C-232/94; Joined Cases C-71/94, C-72/94 and C-73/94; Joined Cases C-427/93, C-429/93 and C-436/93, n. 37 above, point 54. See also *supra* section "In the Light of EU Primary Law".

[66] These findings are reaffirmed by the ECJ's case law itself. Cf. Joined Cases C-427/93, C-429/93 and C-436/93, n. 36 above, para. 31, where it is noted that "That provision [Article 7 (1) of Directive 89/104/EEC, now Article 7 (1) of Directive 2008/95/EC] is framed in terms corresponding to those used by the Court in judgments which, in interpreting Articles 30 and 36 of the Treaty, have recognized in Community law the principle of the exhaustion of the rights conferred by a trade mark. It reiterates the case-law of the Court to the effect that the owner of a trade mark protected by the legislation of a Member State cannot rely on that legislation to prevent the importation or marketing of a product which was put on the market in another Member State by him or with his consent". *Fezer* criticises the statement of reasons for the MarkenG of 1994 as regards the position expressed in the previously mentioned statement of reasons that the ECJ's case law developed before the entry into force of Directive 89/104/EEC with respect to Community-wide exhaustion of trademark rights cannot be take into account when interpreting Article 24 of MarkenG, which transposes the provision of Article 7 of Directive 89/104/EEC into German legal system. See Fezer (2009), § 24 MarkenG, pp. 1671–1672, Nr. 126. Cf. also Sack (1997), p. 2.

laws, Article 267 of the TFEU applies when doubt concerning the meaning of the provisions in question arises. According to that Article, where a question on the interpretation of acts of the institutions, bodies, offices, or agencies of the Union is raised before any court or tribunal of a Member State, that court or tribunal may, if it considers that a decision on the question is necessary to enable it to give judgment, request the ECJ to give a ruling thereon. Indeed, where any such question is raised in a case pending before a court or tribunal of a Member State against whose decisions there is no judicial remedy under national law, that court or tribunal is obliged to bring the matter before the ECJ. Finally, it is noted that the respective judicial body for the Member States of the EFTA/EEA is the EFTA Court.[67]

8.2.3.3 In the Light of GATT/WTO Law

The interpretation of the national provisions of the Member States on exhaustion of trademark rights must, in principle, be consistent with the provisions of International Agreements signed by the Member States, given that the latter are superior to and take precedence over all other forms of national law, in accordance with the constitutional provisions of many Member States.

At this time, the only International Agreements that include provisions pertaining to the issue of the legality of parallel imports of trademarked goods are two of the "Multilateral Trade Agreements" included in the Annexes to the WTO Agreement, the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods ("TRIPs Agreement") and the General Agreement on Tariffs and Trade of 1994 ("GATT 1994"), entered into force on 01.01.1995.[68] However, it must be noted that the Contracting Parties to the WTO Agreement (and to the TRIPs Agreement and GATT 1994) include not only the Member States of the European Union but also the European Union itself. This means that the extent to which the Member States' provisions that transpose EU law into national laws are interpreted in accordance with the above-mentioned Agreements is determined by the case law of the Court.[69]

[67] See Article 108 (2) of the EEA Agreement. For the EFTA Court of Justice see Baudenbacher (1998, 2003, 2005).

[68] *Fezer* stresses the necessity for the German trademark law to be interpreted in conformity with the purpose of the TRIPs Agreement. Cf. Fezer (1998), p. 7.

[69] Cf. Case C-53/96, *Hermès International (a partnership limited by shares) v. FHT Marketing Choice BV*, [1998] ECR I-3603, paras 28–29; Joined Cases C-300/98 and C-392/98, *Parfums Christian Dior SA v. TUK Consultancy BV and Assco Gerüste GmbH and Rob van Dijk v. Wilhelm Layher GmbH & Co. KG and Layher BV*, [2000] ECR I-11307, para. 34. Cf. also, in relation to the GATT 1947, Joined Cases C-21/72 to 24/72, *International Fruit Company NV and others v. Produktschap voor Groenten en Fruit*, [1972] ECR 1219, paras 21, 25 and 26; Case C-280/93, *Federal Republic of Germany v. Council of the European Union*, [1994] ECR I-4973, paras 103–112; Case C-469/93, *Amministrazione delle Finanze dello Stato v. Chiquita Italia SpA*, [1995] ECR I-4533, paras 26–29.

More specifically, the case law of the Court has explicitly rejected the direct effect of the WTO Agreements, including both the TRIPs Agreement and the GATT 1994. This means that individuals cannot rely on the provisions of those Agreements before a national court in order to contest the validity of acts by European Union Institutions.[70] According to the ECJ's case law, "to accept that the role of ensuring that Community law complies with those rules devolves directly on the Community judicature would deprive the legislative or executive organs of the Community of the scope for manoeuvre enjoyed by their counterparts in the Community's trading partners".[71]

Based on the foregoing, it should be accepted that the national courts of the Member States cannot derogate, by invoking provisions of GATT/WTO law, from the interpretative assessments made by the Court with respect to Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) in applying the national provisions that transpose that Article into the national laws of the Member States.

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[70] Case C-149/96, *Portuguese Republic v. Council of the European Union*, [1999] ECR I-8395, paras 42–47. It is worth mentioning that some authors challenge the uniform treatment of the TRIPs Agreement and the GATT 1994 by the ECJ regarding their effects. See Kinini (2004), pp. 53–54 and the references thereto.

[71] Case C-149/96, n. 70 above, para. 46.

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Chapter 9
The Elements of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009

9.1 Introduction

Pursuant to the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, the proprietor of a national trademark or a Community trademark, respectively, in a Member State of the European Community (now European Union[1]) cannot invoke the exclusive right flowing from the trademark in order to prohibit its use by a third party, i.e. the rights conferred by the trademark are exhausted if the following cumulative conditions are met:

a) the national or the Community trademark is used to distinguish a good;
b) the good has been put on the market;
c) the putting on the market of the good has taken place within a Member State of the European Union or the European Economic Area[2]; and
d) the good has been put on the market by the trademark proprietor or with his consent.[3]

The aim of the present chapter is to analyse the meaning of the above-mentioned conditions in the light of the European Court of Justice's ("ECJ" or "Court") case law developed to date.

It is to be noted that the ECJ's assessments formulated with respect to the provisions of Articles 7 (1) of Directive 89/104/EEC and 13 (1) of Regulation

[1] See Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty (officially entitled "the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community"). Where, in the context of the present chapter, the term "Member State" is used without any further explanation, this term shall refer to the Member States of the European Union, save if the relevant note exclusively refers to a time prior to the entry into force of the Lisbon Treaty (signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009), where the term in question shall refer to the Member States of the European Community.

[2] See *infra* Sect. 9.4.1.

[3] For the text of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, see *supra* Sect. 8.1.2.

L.G. Grigoriadis, *Trade Marks and Free Trade*, DOI 10.1007/978-3-319-04795-9_9,

(EC) 40/94 are now valid under Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 [see Article 17 (2) of Directive 2008/95/EC and Article 166 (2) of Regulation (EC) 207/2009]. It is also to be noted that, based on the case law of the ECJ, Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC must be interpreted in the same way except for the definition of the territory in which the good is to be put on the market.[4]

It is clarified that the rule on exhaustion of rights enshrined in Article 7 (1) of Directive 2008/95/EC shall be defined in the context of this book as "doctrine of Union-wide exhaustion of the exclusive right flowing from the national trade mark (national trade mark right) or the rights conferred by the national trade mark or national trade mark rights". Correspondingly, the rule on exhaustion of rights enshrined in Article 13 (1) of Regulation (EC) 207/2009 shall be defined as "doctrine of Union-wide exhaustion of the exclusive right flowing from the Community trade mark (Community trade mark right) or the rights conferred by the Community trade mark or Community trade mark rights". This is because, according to Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty (officially entitled "the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community"), the European Union (hereinafter: EU) succeeds and replaces the European Community (hereinafter: Community) (Article 1, subparagraph 3 of the TEU). Thus, the terms "Community exhaustion" or "Community-wide exhaustion", which were largely used by legal doctrine to characterise the regimes of exhaustion recognised by the Member States of the EU with respect to national and Community trademark rights prior to the entry into force of the Lisbon Treaty, must now be replaced by the term "Union-wide exhaustion". It is further clarified that where in the context of the present chapter the term "trademark" is used, that term shall refer to the national trademark, save if the relevant statement refers to both the provision of Article 7 (1) of Directive 2008/95/EC and the provision of Article 13 (1) of Regulation (EC) 207/2009, where the term shall refer to both the national and the Community trademarks.

9.2 Trademarked Good

According to the wording of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, those provisions concern goods bearing a national or Community trademark, respectively.[5] The concept of "good" includes, according to the ECJ's case law, any product that "can be valued in money and which are

[4] See *supra* Sect. 8.1.3.2.

[5] In contrast, the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC do not concern unbranded items, namely items not put on the market under a specific trademark.

capable of forming the subject of commercial transactions".[6] On the contrary, an object is not considered to be a good if it is supplied free of charge in order to promote the sale of other items bearing a specific trademark, since that object is not distributed in any way with the aim of it penetrating the market.[7]

The doctrine of Union-wide exhaustion of the rights conferred by national and Community trademarks does not concern the whole of the production line of a trademarked product, namely the total items of a trademarked product, but only trademarked items of a product put on the market in an EU Member State or, as will be noted below,[8] a Member State of the European Economic Area (EEA) by the proprietor of the trademark or with his consent.[9] On the other hand, Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC are applicable to both goods manufactured in a Member State of the EU or the EEA and goods manufactured in countries outside the EEA. For the said provisions to apply, that is to say, the place where a trademarked good has been produced is indifferent. What is of interest, on the contrary, is whether such a product has been put on the market by the proprietor of the trademark or with his consent in a Member State of the EU or the EEA.[10] The position that for the provisions under consideration to apply only the place where a trademarked good has been put on the market (and not the place where a trademarked good has been produced) is of importance was affirmed by the ECJ with respect to the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], in its judgment in *Phytheron International v. Bourdon*, where the Court held that "it is of no importance for the application of Article 7 of the Trade Mark Directive whether or not the product protected by the mark has been manufactured in a non-member country if it has in any event been lawfully put on the market, in the Member State from which it has been imported, by the owner of the mark or with the owner's consent, including marketing by another company in the same group as the owner".[11]

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[6] Cf. the definition of the term "good" offered by the Court in Case C-7/68, *Commission of the European Communities v. Italian Republic*, [1968] ECR 423, 428. Electricity is also considered to be a product. See Case C-393/92, *Municipality of Almelo and others v NV Energiebedrijf Ijsselmij,* [1994] ECR I-1477, para. 28; Case C-158/94, *Commission of the European Communities v Italian Republic*, [1997] ECR I-5789*,* para. 17.

[7] See Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, para. 71; Case C-495/07, *Silberquelle GmbH v Maselli-Strickmode GmbH,* [2009] ECR I-137, paras 20–22. For the concepts of "product" and "good" in EU law in general, see Oliver (2003), paras 2.02–2.11, pp. 16–23.

[8] See *infra* Sect. 9.4.1.

[9] See Case C-173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, [1999] ECR I-4103, para. 20. This position already follows from the general theory as to the rule on exhaustion of rights (see *supra* Sect. 1.4.2.4).

[10] See *infra* Sect. 9.4.

[11] Case C-352/95, *Phytheron International SA v Jean Bourdon SA,* [1997] ECR I-1729, para. 21. This statement is based on the provision of Article 23 (2) of the EC Treaty [now Article 28 (2) of the TFEU], according to which the provisions of the Title II (Free Movement of Goods) of the Treaty on the Functioning of the European Union are applicable not only to products originating in

An issue arises as to whether the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 apply also to service marks. That issue does not directly, at least, concern the problem of the legality of parallel imports, given that services cannot be imported between Member States. Contrary to goods, services cannot circulate between nations but can only be rendered in the country where their providers operate. This remark, namely that there cannot not be circulation of services between Member States, as well as the fact that the wording of Articles 7 (1) of Directive 89/104/EEC and 13 (1) of Regulation (EC) 40/94 [now Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, correspondingly] refers only to goods, led most academic writers to deny the application of those provisions to service marks.[12]

In German legal literature, however, there have been views accepting the application of the exhaustion of rights provision included in the German Law on trademarks [Article 24 (1) MarkenG] also to service marks. Thus, according to a probably isolated view, the aforesaid provision is applicable, either directly or by analogy, also to service marks.[13] According to a different view, Article 24 (1) MarkenG is applicable only to service marks that have been affixed to items serving the provision of services ("Hilfswaren" in German).[14] Finally, according to another view, Article 24 (1) MarkenG is applicable by analogy to a service mark, provided that the service distinguished by the mark has not been provided but just a contractual obligation for its provision has been assumed.[15]

Member States of the Community (now European Union) but also to products coming from third countries that are in free circulation in Member States. The position that for Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) to apply the place where a trademarked good has been manufactured is not relevant has been confirmed also in relation to the EFTA/EEA Member States by the EFTA Court. See Joined Cases E-9/07 and E-10/07, *L'Oréal Norge AS v Per Aarskog AS and Others*, [2008] EFTA Court Reports 259, para. 33, where it is noted that Article 65 (2) of the EEA Agreement, Protocol 28, and Annex XVII to the EEA Agreement do not make a reservation against rules [i.e., Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC)] providing for mandatory EEA-wide exhaustion of rights in relation to goods originating in a country not belonging to the EEA. The aforementioned position had already been supported in legal literature. See Prändl (1993); so also Brown (1996), p. 344. The opposite view had been expressed by Abbey (1992) mainly on the ground that Article 8 (2) of the EEA Agreement explicitly mentions that Article 13 of the EEA Agreement (=Article 30 of the EC Treaty and now Article 36 of the TFEU) is applicable only to goods originating in the Contracting Parties to the EEA Agreement.

[12] See Antonopoulos (2005), p. 477 n. 48, Nr. 591; Ingerl and Rohnke (2003), § 24 MarkenG, p. 1185, Nr. 14; Marinos (1996), p. 212; Marinos (2007), pp. 42–43, Nr. 95 & p. 213, Nr. 456 (2007); Mulch (2001), p. 10; Schreiner (1983), pp. 296–297.

[13] Meyer (1996), p. 596.

[14] Fezer (2009), § 24 MarkenG, 1627–1628, Nr. 13.

[15] Preiss (2000). Thus, for example, according to this view, the rights conferred by the service mark of a hotel unit are subject to exhaustion rule in cases where a contract has been concluded between the hotel unit and a tour operator concerning the hiring of rooms for customers of the latter and afterwards the tour operator transfers its rights arising out of the contract to another tour operator.

In this author's opinion and in the light of the ECJ's case law, the foregoing views cannot be accepted.

More specifically, based on the ECJ's case law, Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) comprehensively regulates the question of the exhaustion of national trademark rights with regard to goods that have been put on the market in the European Community (now European Union).[16] The Court's case law rejects, that is to say, the applicability of Article 7 of Directive 2008/95/EC to service marks, given that the aforementioned Article refers only to trademarked goods. In view of the fact that Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 must be interpreted in the same way, Article 13 of Regulation (EC) 207/2009 cannot apply to service marks either.

However, independently of the Court's case law, applying Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC to service marks does not appear correct under the general theory on exhaustion of rights as well.

In particular, in relation to the first view that accepts that Article 24 (1) MarkenG and, by extension, Article 7 (1) of Directive 2008/95/EC apply directly or by analogy to service marks, it is submitted that the application of the doctrine of exhaustion of rights assumes by its very purpose, which consists in preventing the use of marks from being monopolised by mark proprietors, that the use of a mark by a person other than the mark proprietor (or a person authorised by the mark proprietor) is possible. However, such a condition is de facto not met in the case of a service mark, precisely because services cannot circulate, like goods, but can only be provided once.

Furthermore, with respect to the view that accepts that Article 24 (1) MarkenG and, by extension, Article 7 (1) of Directive 2008/95/EC apply to service marks that has been placed on items serving the provision of services, it is observed that such items cannot be regarded as goods within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009. Indeed, such items cannot be valued in money and, in addition, are not capable of forming the subject of commercial transactions, as it is required by the ECJ's case law for an item to be classified as a "good" under EU law. Moreover, on the basis of the most recent case law of the ECJ, an item serving the provision of a service cannot be classified as a "good" under EU law also on the ground that such an item is not distributed in any way with the aim of it penetrating the market.[17] In the light of these considerations, service marks that have been placed on items serving the provision of services cannot be subject to Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009.

Finally, with respect to the view that accepts that Article 24 (1) MarkenG and, by extension, Article 7 (1) of Directive 2008/95/EC apply to service marks by analogy,

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[16] See *supra* section "In the Light of EU Primary Law".

[17] Case C-495/07, *Silberquelle GmbH v Maselli-Strickmode GmbH,* [2009] ECR I-137, paras 20–22; Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, para. 71.

providing that the service distinguished by the mark has not been supplied but just a contractual obligation for its supply has been assumed, such a view cannot be accepted because the assumption of a contractual obligation for the supply of a service does not constitute a use of the service mark allowing the origin function of that mark to be developed. However, it follows from the purpose of trademark law itself that, for the rights conferred by a mark to be exhausted, use of that mark in business transactions or, in other words, an act that allows the function of origin of that mark to be developed is required.

However, the restriction of the scope of application of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to trademarks, namely to marks borne by goods, raises the question of how to dissociate the notion of a "good" from the one of a "service". That dissociation is not an easy case as regards services relating to the production or the distribution of goods.[18] Focusing on that question is beyond the scope of this study. For the purposes of this study, it suffices to note that an activity cannot constitute, at the same time, production or distribution of a good and provision of a service.[19] In order to classify an activity as "production or distribution of goods" or as "provision of a service", the economically dominant character of the action, both in terms of competition and of consumer demand, should be sought. When, in the context of an activity, the economic value of the services rendered in relation to the production or the distribution of a good is greater than the economic value of the produced or distributed good, then such an activity should be regarded as provision of a service.[20] On the contrary, if the preparatory actions in the manufacturing process are of a lesser economic value than the produced or the distributed good and their economic value has been internalised into the produced or distributed good's price, then such an activity should be regarded as production or distribution of a good.[21] In any case, even if the activity exercised or intended to be exercised by an undertaking should be classified, according to the aforementioned principles, as a provision of a service so that no room for Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to apply exists, trademarked items of a product that materialise the result that a service is aimed to achieve ("Leistungsergebnisse" in German), can be valued in money, and are capable of forming the subject of commercial transactions fall, of course, under those Articles.

Finally, it is clarified that the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC are applicable also to goods that have been registered as trademarks and that, after they have been used by

[18] For the traditional division between "services relating to the production or the distribution of goods" ("warenbezogene Dienstleistungen" in German) and "services non-relating to the production or the distribution of goods" ("reine Dienstleistungen" in German), see Fezer (2009), § 3 MarkenG, p. 326, Nr. 269 & p. 325, Nr. 263; Froschmaier (1959), pp. 20–22; Preiss (2000), pp. 39–58; Schreiner (1983), p. 124; Sinanioti-Maroudi (1995), pp. 59–63.

[19] See Sinanioti-Maroudi (1995), p. 59 & n. 81 thereto.

[20] See Sinanioti-Maroudi (1995), p. 60.

[21] See Sinanioti-Maroudi (1995), p. 60.

consumers, are reused for commercial purposes, save if there is a "legitimate reason" within the meaning of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.[22] Such a position can be seen as a compromise between, on one hand, the legitimate interest on the part of the proprietor of the trademark constituted by the shape of a product and the proprietor of the trademark(s) affixed to that product in profiting from the rights attached to those marks and, on the other hand, the legitimate interests of purchasers of items of that product, in particular those purchasers' interest in fully enjoying their property rights in those items and the general interest in maintaining undistorted competition.[23] Indeed, the property rights of purchasers of those items would have been excessively burdened if those rights were restricted by the related trademark rights even after the sale of those items by the proprietors (of the related trademarks) or with their consent.[24] Besides, such a restriction would unduly reduce competition on the downstream market related to those items, an outcome that is, of course, far beyond the purpose of trademark law.[25]

9.3 Putting on the Market of a Trademarked Good

The application of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 requires the putting on the market of a trademarked good (item of product).

The semantic meaning of the term "putting on the market" could be determined in different ways, if such a determination was up to the court's case law or the legal literature of each Member State.[26] However, such a possibility does not exist now, after the decision of ECJ in *Peak Holding* has been issued.[27] As the Court stated in

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[22] See the Court's judgment in *Viking Gas* (Case C-46/10, *Viking Gas A/S v Kosan Gas A/S,* [2011] ECR I-6161), where the application of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] to composite bottles of gas, the shape of which was protected as a three-dimensional trademark, was accepted.

[23] Case C-46/10, n. 22 above, para. 31.

[24] Cf. Case C-46/10, n. 22 above, in particular para. 33.

[25] Cf. Case C-46/10, n. 22 above, in particular para. 34.

[26] Thus, for example, it might be supported that putting on the market within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 means the same as the transfer of ownership of a trademarked good (see, from Greek legal literature, Marinos 1996, p. 213). Also, it might be suggested that the semantic meaning of that term covers all the uses of a trademark mentioned in Articles 5 (3) (b) of Directive 2008/95/EC and 9 (2) of Regulation (EC) 207/2009, namely even the offering for sale of a trademarked good. Finally, according to a view expressed by German legal writers, the above-mentioned term means the same as the change of the actual possession of a trademarked good or, in other words, the transfer of the right to dispose a trademarked good within the meaning of Article 854 (1) BGB (see Harriehausen 2004, p. 92; Ingerl and Rohnke 2003, § 24 MarkenG, Nr. 14; Mulch 2001, pp. 11–14).

[27] Case C-16/03, *Peak Holding AB v Axolin-Elinor AB (formerly Handelskompaniet Factory Outlet i Löddeköpinge AB)*, [2004] ECR I-11313.

that judgment, that term must be interpreted uniformly in all EU Member States.[28] This position was based on the need for a uniform protection of trademark owners amongst EU Member States.[29] At the same time, it is consistent with the ECJ's settled case law, according to which "the need for a uniform application of European Union law and the principle of equality require that the terms of a provision of European Union law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an independent and uniform interpretation throughout the European Union; that interpretation must take into account the context of the provision and the objective of the relevant legislation".[30] The concept "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 is, therefore, an EU law concept.

In *Peak Holding*, however, the ECJ moved further, according to the questions submitted by the referring court, towards determination of the semantic meaning of the term "putting on the market". In particular, in that judgment, the ECJ confirmed, first of all, that the sale of trademarked goods is a form of putting on the market within the meaning of Article 7 (1) of Directive 89/104/EC [now Article 7 (1) of Directive 2008/95/EC].[31] Instead, it held that there is no putting on the market in cases where a trademark proprietor imports goods bearing the trademark with a view to selling them in the EEA or offers them for sale in the EEA.[32] This is because, "such acts do not transfer to third parties the right to dispose of the goods bearing the trade mark. They do not allow the proprietor to realize the economic value of the trade mark. Even after such acts, the proprietor retains his interest in maintaining complete control over the goods bearing his trade mark, in order in particular to ensure their quality".[33] Finally, the Court confirmed that the term "putting on the market" used in Article 5 (3) (b) of Directive 89/104/EC [now Article 5 (3) (b) of Directive 2008/95/EC] means the same as the concept of putting on the market within the meaning of Article 7 (1) of Directive 89/104/EC [now Article 7 (1) of Directive 2008/95/EC].[34]

[28] Case C-16/03, n. 27 above, para. 32.

[29] Case C-16/03, n. 27 above, para. 31.

[30] See Case C-467/08, *Padawan SL v. Sociedad General de Autores y Editores de España (SGAE)*, [2010] ECR I-10055, para. 32. See also Case C-327/82, *Ekro BV Vee- en Vleeshandel v. Produktschap voor Vee en Vlees*, [1984] ECR 107, para. 11; Case C-287/98, *Grand Duchy of Luxemburg v. Berthe Linster, Aloyse Linster and Yvonne Linster*, [2000] ECR I-6917, para. 43; Case C-523/07, *A*, [2009] ECR I-2805, para. 34.

[31] Case C-16/03, n. 27 above, para. 39.

[32] Case C-16/03, n. 27 above, para. 41.

[33] Case C-16/03, n. 27 above, para. 42.

[34] Case C-16/03, n. 27 above, para. 43. In view of the fact that Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 must be interpreted in the same way except for the definition of the territory in which the good is to be put on the market, it must also be accepted that the term "putting on the market" used in Article 9 (2) (c) of Regulation (EC) 207/2009 means the

On the basis of these considerations, the concept of putting on the market within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 must be interpreted as including actions that, firstly, entail the transfer of the (actual) right of disposal of a trademarked good and, secondly, allow the proprietor of a trademark to realise the economic value of the trademark through the shifting of the profit or loss, namely the economic risk, of any onward sale of a trademarked good from the trademark proprietor to a third party (in relation to the trademark proprietor),[35] who, based on the text of the *Peak Holding* judgment, may have assumed a contractual obligation to resell the good.[36]

In particular, according to the *Peak Holding* judgment, the putting on the market of a trademarked good must entail the transfer of the right of disposal of the trademarked good to a third party, namely the application of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 requires that the trademark proprietor (as well as persons authorised by the proprietor) must no longer be able to use the trademark borne by the good concerned.[37] Besides, it follows from the purpose of trademark law that, in order for the exhaustion of the exclusive right flowing from a trademark to be identified with regard to a specific good, an act of commercial use of the trademark is required, that is to say an act that allows the development of the origin function of the trademark in question through the actual distribution of the good. Furthermore, from the Court's statement that the putting on the market of a trademarked good must allow the trademark proprietor to realise the economic value of the trademark, it follows that the application of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 requires the shifting of the profit or loss, namely the economic risk, of any onward sale of a trademarked good from the trademark proprietor to a third party. This is because the percentage of the economic value of a trademark corresponding to a specific good is expressed in the price of the good on the market. That price is the sum of a proportion of the investments made by the trademark proprietor in order to establish his trademark as a symbol of quality of the goods bearing the trademark and as a symbol of his business's reputation, on one hand, and the profit that the trademark proprietor expects to gain from the sale of the good, on the other.[38] So, for the economic value of a trademark to be realised with respect to a good, it is presupposed that a third party assumes the risk of reselling the good at a higher or lower price than the one at which the third party acquired the right to dispose of the

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same as the concept of "putting on the market" within the meaning of Article 13 (1) of Regulation (EC) 207/2009.

[35] Cf. Fezer (2009), § 24 MarkenG, p. 1626, Nr. 11.

[36] Case C-16/03, n. 27 above, paras 50–56.

[37] Cf. Case C-127/09, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, [2010] ECR I-4965, para. 22.

[38] Cf. Harriehausen (2004), p. 92; OLG Stuttgart *NJW-RR* 1998, 482; OLG Nürnberg *WRP* 2002, 345, 346; OLG Hamburg *GRUR-RR* 2003, 335, 336, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG].

good from the trademark proprietor (or a person authorised by the trademark proprietor).[39]

In contrast, the putting on the market of a trademarked good includes neither the transfer of ownership of the good nor the payment of the price at which the third party that acquires the right to dispose of the good has agreed to acquire ownership of the good from the trademark proprietor (or a person authorised by the proprietor).[40] This is because after the right to dispose of a trademarked good has been transferred to a third party, any decision regarding further distribution of the good is no longer on the part of the trademark proprietor.[41] In particular, the third party that acquires the right to dispose of a trademarked good needs, of course, to acquire the ownership of the good in order to fulfil a contractual obligation for its resale. However, this does not prevent him from undertaking such an obligation before acquiring ownership of the good, as it happens especially where a trademarked good is sold under reservation of title.[42] Indeed, the third party may expect to pay the price at which he agreed to acquire ownership of the good by assigning his claim to the price at which he agreed to resell the good to the trademark proprietor (or a person authorised by the proprietor).[43] Besides, if the trademark proprietor (or a person authorised by the proprietor) sees a risk of non-receiving the price at which he agreed to transfer the ownership of a good bearing the trademark, he can take measures to safeguard his claim to that price under the law of the Member State concerned.[44]

In the light of these considerations, the concept of "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation

[39] Enchelmaier (2007), p. 458.

[40] Enchelmaier (2007), p. 458. Cf. also Case C-127/09, n. 37 above, para. 22.

[41] So also Enchelmaier (2007), p. 458; Mulch (2001), p. 20, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]. Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, points 41–42, where it is noted that the putting on the market of a trademarked good is based not on the change of ownership but on the transfer of the actual right of disposal of the good in question; also Case C-127/09, n. 37 above, para. 20.

The position that the exhaustion of the exclusive rights flowing from national and Community trademarks is not dependent on the change of ownership of trademarked goods is also supported by the different wording of the exhaustion of rights provisions set out in Directive 2008/95/EC and Regulation (EC) 207/2009, on one hand, and in Directive 2001/29/EC, on the other. Indeed, had the Community legislator wanted to make the exhaustion of national and Community trademarks conditional on the change of ownership of trademarked goods, then the term "transfer of ownership" instead of the term "put on the market" should have been used, on the model of Article 4 (2) of Directive 2001/29/EC, in the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009. According to Article 4 (2) of Directive 2001/29/EC, "The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or *other transfer of ownership* in the Community of that object is made by the rightholder or with his consent" (emphasis added).

[42] So also Enchelmaier (2007), p. 458.

[43] So also Enchelmaier (2007), p. 458.

[44] So also Enchelmaier (2007), p. 458.

(EC) 207/2009 must be interpreted as including the sale of trademarked goods,[45] even if the relevant contract is concluded under reservation of title.[46] Additionally, it must be interpreted as including the donation of trademarked goods, given that the donation of a trademarked good to a third party entails also the transfer of the right to dispose of the good and the shifting of the economic risk of any future sale of the good, but on condition that the trademarked item of a product that is acquired by gift does not aim to promote the sale of other products.[47] It is, of course, obvious that in cases where a trademarked good is donated, the trademark proprietor waives his right to realise the economic value of the trademark with respect to the specific good.

On the other hand, the following acts do not constitute a "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009:

a) the transfer of ownership of a trademarked good by way of security, when the assignor remains in possession of the good in question[48];
b) preparatory actions for selling a trademarked good, such as the importation and the offer for sale of the good in question in a Member State of the European Economic Area. According to the ruling in *Peak Holding*, those actions neither entail the transfer of the power to dispose of the good in question to a third party nor allow the trademark owner to realise the economic value of the trademark with respect to the good in question.[49] An argument against viewing those actions as forms of putting on the market of a trademarked good can also arise from Articles 5 (3) (b) and (c) of Directive 2008/95/EC and 9 (2) (b) and (c) of Regulation (EC) 207/2009.[50] Indeed, the aforesaid provisions, which refer to the

[45] Case C-16/03, n. 27 above, para. 40. It is noted that the term "putting on the market of a trademarked good" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 covers not only the sale concluded based on the free will of the trademark proprietor but also the forced sale by court order. A different solution would exempt the good, essentially, from seizure, since it would limit, to a large extent, the successful tenderer's possibilities for obtaining economic benefits from the use of the trademark of the good. Cf. Fezer (2009), § 24 MarkenG, pp. 1630–1631, Nr. 17, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]. An opposite view was accepted under the WZG, in view of the fact that the possibility of an undertaking and the undertaking's trademark being seized and being objects of an auction separately was not accepted.

[46] So also Mulch (2001), p. 20, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]; Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 41 n. 24.

[47] Case C-324/09, n. 17 above, para. 71.

[48] So also Mulch (2001), pp. 20–21, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]; Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 42 n. 24.

[49] Case C-16/03, n. 27 above, para. 41. The position that preparatory actions for selling a trademarked good do not constitute a putting on the market and cannot lead to exhaustion of the rights conferred by a trademark has always been accepted by German legal literature. See Mulch (2001), p. 15.

[50] Case C-16/03, n. 27 above, para. 43.

content of the exclusive right flowing from the national trademark and the Community trademark, respectively, distinguish, *inter alia*, between putting on the market, offering for sale, and importing trademarked goods;

c) the sale of a trademarked good to an undertaking that has its own legal personality but belongs to the same group as the trademark proprietor. It is true that one cannot foresee in complete safety what the Court would have decided in *Peak Holding* if the company to which the trademark proprietor had sold the trademarked goods in question belonged to the same group as the trademark proprietor. In other words, one cannot foresee in complete safety whether, in the Court's view, the putting on the market of a trademarked good includes not only the sale of the good in question to a person who has assumed a contractual obligation to resale the good but also the sale of the good in question to an undertaking that has its own legal personality but belongs to the same group as the trademark proprietor. However, as has been correctly pointed out, a positive response to such a question is not favoured by the observations, firstly, that the sale of a trademarked good to an undertaking belonging to the same group as the trademark proprietor occurs in the distribution chain at a level higher than the one at which a trademarked good is offered for sale to a distributor authorised by the trademark proprietor and, secondly, that offering a trademarked good for sale does not constitute, as previously mentioned, a putting on the market of the good[51];

d) only the internal transit[52] of a trademarked good. In particular, in *Rioglass and Transremar*, the Court accepted that "a transit which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question".[53] This position is valid, as explicitly pointed out by the Court, irrespective of the final destination of the goods in transit, given that this information does not alter the nature of the transit operation, which, by definition, does not constitute a placing on the market[54];

e) only the offer for sale or the sale of a trademarked good after the good in question has entered physically but not legally the territory of the EU (or the EEA). More specifically, in *Class International*, the Court accepted, firstly, that

[51] Stothers (2007), pp. 47–48.

[52] See Article 145 of the European Union's Customs Code [Regulation (EC) 450/2008 (OJ 2008 L 145/1)] and Articles 48 and 171 of the Community's Customs Code previously in force [Regulation (EC) 2913/1992 (OJ 1992 L 302/1)].

[53] Case C-115/02, *Administration des douanes et droits indirects v Rioglass SA and Transremar SL*, [2003] ECR I-12705, para. 27.

[54] Case C-115/02, n. 53 above, para. 28. See also Opinion of Advocate General Mischo in Case C-115/02, n. 53 above, point 45. The position that the transit of a trademarked good does not constitute a putting on the market of it has been always been accepted by German legal literature. See Litten (1997), p. 682; Mulch (2001), pp. 17–18.

placing non-Community goods under the external transit procedure[55] or the customs warehousing procedure[56] is not "importing" within the meaning of Article 5 (3) (c) of Directive 89/104/EEC [now Article 5 (3) (c) of Directive 2008/95/EEC] and Article 9 (2) (c) of Regulation (EC) 40/94 [now Article 9 (2) (c) of Regulation (EC) 207/2009] and does not entail "using [the mark] in the course of trade" within the meaning of Article 5 (1) of Directive 89/104/EEC [now Article 5 (1) of Directive 2008/95/EEC] and Article 9 (1) of Regulation (EC) 40/94 [now Article 9 (1) of Regulation (EC) 207/2009]; secondly, that the aforementioned position is not affected by the contention that there is a real and permanent risk that goods placed under the external transit procedure or the customs warehousing procedure will be released for free circulation; and, thirdly, as a consequence of the aforementioned position, that the proprietor of a trademark cannot oppose the mere entry into the Community (now EU), under the external transit procedure or the customs warehousing procedure, of original goods bearing that mark that have not already been put on the market in the Community previously by that proprietor or with his consent, even if the final destination of the goods in question has not been specified.[57] On the contrary, according to Court, the proprietor of a trademark can oppose the offer for sale or sale of goods bearing the trademark that were placed under the external transit procedure or the customs warehousing procedure pursuant to Article 5 (3) (c) of Directive 89/104/EEC [now Article 5 (3) (c) of Directive 2008/95/EEC] or Article 9 (2) (c) of Regulation (EC) 40/94 [now Article 9 (2) (c) of Regulation (EC) 207/2009] and Article 5 (1) of Directive 89/104/EEC [now Article 5 (1) of Directive 2008/95/EEC] or Article 9 (1) of Regulation (EC) 40/94 [now Article 9 (1) of Regulation (EC) 207/2009] if the offer for sale or the sale entails the putting on the market of the goods in question within the EU.[58] However, the likelihood that the goods in question will be put on the market in the EU cannot be assumed on the sole basis of the fact that the owner of the goods, the addressee of the offer, or the purchaser engage in parallel trade[59];

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[55] See Article 144 of the European Union's Customs Code [Regulation (EC) 450/2008 (OJ 2008 L 145/1)] and Articles 47, 52 and 53 of the Community's Customs Code previously in force [Regulation (EC) 2913/1992 (OJ 1992 L 302/1)].

[56] See Article 153 of the European Union's Customs Code [Regulation (EC) 450/2008 (OJ 2008 L 145/1)] and Article 171 of the Community's Customs Code previously in force [Regulation (EC) 2913/1992 (OJ 1992 L 302/1)].

[57] Case C-405/03, *Class International BV v Colgate-Palmolive Company and Others*, [2005] ECR I-8735, paras 42–50.

[58] Case C-405/03, n. 57 above, para. 58.

[59] Case C-405/03, n. 57 above, paras 59–60. The position that the external transit of a trademarked product does not constitute a putting on the market of it was confirmed by the Court in *Montex Holdings* (Case C-281/05, *Montex Holdings Ltd v Diesel SpA*, [2006] ECR I-10881). Specifically, in *Montex Holdings*, the Court confirmed that the proprietor of a trademark cannot prohibit the transit through a Member State in which that mark is protected of goods bearing the trademark and placed under the external transit procedure whose destination is another Member State where the mark is not so protected, unless those goods are subject to the act of a third party while they are

f) the distribution, free of charge, of trademarked items intended to promote the sale of other goods[60] because such items are not distributed in any way with the aim of them penetrating the market.[61]

The above approach regarding the concept of "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 is in harmony with the doctrine of specific subject matter of the exclusive right flowing from the trademark, namely the rationale of the doctrine of Community-wide exhaustion of that right.[62] More specifically, as was analysed in Chap. 7, according to that doctrine, the provision of Article 36, first subparagraph of the TFEU aims to protect not only the origin function but also the economic functions developed by the trademark, namely the trademark's guarantee and advertising functions.[63] But the guarantee and advertising functions of the trademark are not protected to the same extent as the trademark's origin function under Article 36 of the TFEU. The proprietor of a trademark cannot oppose the parallel importation of goods bearing the trademark with the argument that the importation impairs the guarantee or the advertising function of the trademark, unless the conditions laid down by the ECJ's case law are met. However, this does not mean that Article 36 of the TFEU may prevent the development of the guarantee or advertising functions of the trademark. But this would be the result, if for a trademarked good to be subject to Article 34 of the TFEU, it sufficed to be found that the origin function of the trademark borne by the good has been legally developed without examining whether the trademark proprietor had the chance to realise the economic value of the trademark with respect to the specific good. In accordance, therefore, with the assumption that the doctrine of specific subject matter of the exclusive right flowing from the trademark guarantees that all the functions of a trademark are developed smoothly, even if the guarantee and advertising functions of the trademark are not protected to the same extent as the trademark's origin function under Article 36 of the TFEU, it should be accepted that for Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009

placed under the external transit procedure, which necessarily entails their being put on the market in that Member State of transit (para. 27). Additionally, it noted that the argument that those goods could theoretically be marketed fraudulently in the Member State of transit is not sufficient to allow the conclusion that the transit infringes the essential functions of the trademark in that Member State (para. 24).

The positions of the Court with respect to the term "putting on the market" used in Article 5 (3) (c) of Directive 89/104/EEC [now Article 5 (3) (c) of Directive 2008/95/EC] and in Article 9 (2) (c) of Regulation (EC) 40/94 [now Article 9 (2) (c) of Regulation (EC) 207/2009] in *Class International* and *Montex Holdings* also apply, in the light of the *Peak Holding* decision, to the term "putting on the market" used in Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009] (see Case C-16/03, n. 27 above, para. 43).

[60] Case C-324/09, n. 17 above, para. 71.

[61] Case C-495/07, n. 17 above, paras 20–22; Case C-324/09, n. 17 above, para. 71.

[62] See *supra* Sect. 7.3.6.

[63] See *supra* Sect. 7.3.3.

to apply, it does not suffice to ascertain that any act by a trademark proprietor (or other person authorised by him) directed towards the market has taken place with regard to a specific trademarked good (e.g., presentation of the good in shop windows, advertisement of the good in a newspaper).[64] Such an act indeed allows the good to be traded, that is to say it allows the origin function of the trademark borne by the good to be developed. However, it does not give the trademark proprietor the chance to realise the economic value of the trademark with respect to the good.[65] Indeed, to make it more understandable, one should take into account that the price of a good, in which a percentage of the economic value of the trademark borne by that good is expressed, is established in the market through the interplay of supply and demand and is only finally set when that good is sold.[66] In the light of these considerations, the provision of Article 34 of the TFEU cannot, therefore, take precedence over the interest of a trademark proprietor in maintaining complete control over a good bearing his trademark until the trademark proprietor (or other person authorised by him) assumes a contractual obligation to transfer the right to dispose of the good at a price that, in the trademark proprietor's view, is, at a specified place and time, an appropriate remuneration for the percentage of investment made in the economic value of the trademark that corresponds to that good.[67]

9.4 Putting on the Market Within the EEA

9.4.1 The Geographical Scope of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009—Principle of "Union-Wide" Exhaustion of Trademark Rights

According to the wording of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, for the exclusive right flowing from a national or Community trademark to be exhausted, the putting on the market of a good bearing that trademark "in the Community" is required. After the European Union has succeeded and replaced the European Community [Article 1, subparagraph 3 of the TEU, as amended by the Lisbon Treaty (signed on 13.12.2007 and entered into force on 01.12.2009)], the term "in the Community" must be seen as having silently

[64] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 37.

[65] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 37, n. 20, with reference to the ECJ's judgment in Case C-206/01, *Arsenal Football Club plc v Matthew Reed,* [2002] ECR I-10273, where the ECJ confirmed the traditional function of the mark as an indicator of the origin of the goods, but at the same time it stressed its increasing importance as a vehicle for investment and publicity.

[66] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 35.

[67] Cf. Opinion of Advocate General Stix-Hackl in Case C-16/03, n. 27 above, point 35.

replaced by the term “in the European Union” (“principle of ‘Union-wide’ exhaustion of national and Community trade mark rights”).

For Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC to apply, the putting on the market of a trademarked good must, therefore, take place within the territory of an EU Member State (Article 52 of the TEU) and, in addition, the particular place where the good has been put on the market must not be exempted from the applicability of EU primary law.[68] Here, maybe it should be stressed that, for a trademarked good to be put on the market in the European Union within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, it is required that the good has been released for free circulation within the meaning of Articles 29 of the TFEU and 129 of the European Union’s Customs Code [Regulation (EC) 450/2008].[69] That is to say, it is required that the good has entered the territory of an EU Member State not only physically but also legally, since, according to the ECJ’s case law, the mere physical introduction of trademarked goods into the territory of the European Union is not “importing” within the meaning of Article 5 (3) (c) of Directive 2008/95/EC and Article 9 (2) (c) of Regulation (EC) 207/2009 and does not entail “using the trade mark in the course of trade” within the meaning of Article 5 (1) of Directive 2008/95/EC and Article 9 (1) of Regulation (EC) 207/2009.[70]

[68] Thus, it must be accepted that the putting on the market of a trademarked good in the non-European territories of the Member States mentioned in Article 355 (1) of the TFEU (Guadeloupe, French Guiana, Martinique, Réunion, Saint-Barthélemy, Saint-Martin, the Azores, Madeira, and the Canary Islands), as well as in the Åland islands [Article 355 (4) of the TFEU], is a putting on the market of a trademarked good in the European Union. On the contrary, the putting on the market of a trademarked good in the Faroe Islands, the United Kingdom Sovereign Base Areas of Akrotiri and Dhekelia in Cyprus, the Channel Islands, as well as the Isle of Man [Article 355 (5) of the TFEU] is not a putting on the market of a trademarked good in the European Union. Especially with regard to the Channel Islands and the Isle of Man, it is noted that they are part of the customs territory but not of the territory of the European Union. Finally, the putting on the market of a trademarked good in the overseas countries and territories listed in Annex II of the TFEU is not a putting on the market of a trademarked good in the European Union, since those countries and territories are, as regards the EU, in the same situation as non-member countries (see Opinion of the ECJ No. C-1/78, [1979] ECR I-2871, para. 62; Opinion of the ECJ No. C-1/94, [1994] ECR I-5267, para. 17). See Prevedourou (2003), pp. 1639–1647 (2003) (in Greek).

[69] Case C-405/03, n. 57 above, para. 35. According to Article 29 of the TFEU (ex-Article 24 of the EC Treaty), “Products coming from a third country shall be considered to be in free circulation in a Member State if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in that Member State, and if they have not benefited from a total or partial drawback of such duties or charges”.

[70] Case C-405/03, n. 57 above, paras 42–50; Case C-281/05, n. 59 above, paras 25–27. It is reminded that the positions of the Court with respect to the term “putting on the market” used in Article 5 (3) (c) of Directive 89/104/EEC [now Article 5 (3) (c) of Directive 2008/95/EC] and in Article 9 (2) (c) of Regulation (EC) 40/94 [now Article 9 (2) (c) of Regulation (EC) 207/2009] in those cases also apply, in the light of the *Peak Holding* decision, to the term “putting on the market” used in Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009] (see Case C-16/03, n. 27 above, para. 43).

Putting a trademarked good on the market in the European Union is equivalent to putting a trademarked good on the market in a Member State of the European Free Trade Association/European Economic Area. The position that Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 cover trademarked goods that have been put on the market in any Member State of the EEA is based on Article 2 (1) of Protocol 28 to the EEA Agreement. The latter provision explicitly establishes in the context of the EEA Agreement the principle of exhaustion of intellectual property rights.[71] In particular, in compliance with the provision of Article 2 (1) of Protocol 28 to the EEA Agreement, which is applicable to all products and services [Article 65 (2) of the EEA Agreement], the Contracting Parties to the EEA Agreement commit to recognise a common regime of exhaustion of intellectual property rights.[72] A consequence of such a commitment is, of course, that putting a trademarked good on the market in a Contracting Party to the EEA Agreement must be treated in the same way as putting a trademarked good on the market in any other Contracting Party to the EEA Agreement.[73] This observation should, indeed, be applicable irrespective of whether a trademarked good is covered by a national or a Community trademark. Although Regulation (EC) 40/94 [now Regulation (EC) 207/2009], contrary to Directive 89/104/EEC (now Directive 2008/95/EC),[74] has not been incorporated into the legal framework of the EEA,

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[71] That principle could readily be deduced from the provisions enshrined in Articles 6 and 11–13 of the EEA Agreement. See Keeling (2003), p. 116. The provisions of Articles 11–13 of the EEA Agreement are substantially identical to the ones of Articles 34–36 of the TFEU. According to Article 6 of the EEA Agreement, "Without prejudice to future developments of case law, the provisions of this Agreement, in so far as they are identical in substance to corresponding rules of the Treaty establishing the European Economic Community and the Treaty establishing the European Coal and Steel Community and to acts adopted in application of these two Treaties, shall, in their implementation and application, be interpreted in conformity with the relevant rulings of the Court of Justice of the European Communities given prior to the date of signature of this Agreement". As has been rightly pointed out, Articles 6 and 11–13 of the EEA Agreement confirm that the EEA is neither a customs union nor a usual free trade area (Keeling 2003, p. 116).

[72] According to the provision of Article 2 (1) of Protocol 28 to the EEA Agreement: "To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement". From the aforementioned provision, it follows that the EFTA Court and the national courts in the EFTA/EEA Member States may, on one hand, further develop the ECJ's case law on the doctrine of exhaustion of trademark rights, but, on the other hand, the positions taken by those courts should be in harmony with that case law. See Tritton (2002), p. 30.

[73] So also Mulch (2001), p. 41. The close relationship between the Principality of Lichtenstein and Switzerland, which refused to ratify the EEA Agreement, through a significant number of International Treaties (see Gey-Ritter 1999, pp. 73–97), does not affect the exhaustion of the rights flowing from the trademarks borne by the goods put on the market in the territory of Lichtenstein. See Sack (1997), p. 47.

[74] It is reminded that Annex XVII (Intellectual Property) to the EEA Agreement was recently amended by Decision of the EEA Joint Committee No. 146/2009 of 04 December 2009 (OJ L

the provision of Article 2 (1) of Protocol 28 to the EEA Agreement is general, namely it concerns every intellectual property right and, by extension, also the right flowing from the Community trademark.[75] However, it must be noted that the Court, in one of its most recent judgments, held that the rights conferred by a Community trademark are not exhausted when goods bearing the trademark are put on the market in an EFTA/EEA Member State.[76]

9.4.2 The Problem of the Legality of the Principle of International Exhaustion of the Rights Conferred by the National Trademark: The Debate in German Literature

As pointed out above, the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 introduce the principle of Union-wide exhaustion of the rights conferred by national and Community, respectively, trademarks.[77] By virtue of the aforesaid provisions and Article 2 (1) of Protocol 28 to the EEA Agreement, the proprietor of a national or Community trademark cannot prohibit the parallel importation of a product bearing the trademark in a Member State, provided that the product has been put on the market by himself or with his consent within the EEA. In the light of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, it is, therefore, beyond doubt that the Member States are prohibited from adopting (through legislation or through their courts' case law) a regime of national exhaustion of the rights conferred by national and Community trademarks. But an issue arises as to whether Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, in particular the phrase "in the Community" used in those Articles, must be interpreted as meaning that the Member States are also precluded from adopting a doctrine of international exhaustion of the rights conferred by national and Community trademarks.

With respect to the rights flowing from the Community trademark, the situation is pretty clear. The Community trademark is a part of the EU acquis.

62/43 of 11.03.2010). According to the previously mentioned Decision, point 4 of Annex XVII to the EEA Agreement no longer exists, whereas point "9 h" has been inserted after point "9 g", where Directive 2008/95/EC is mentioned. The EFTA/EEA Member States are therefore now bound by Directive 2008/95/EC, like the Member States of the European Union. It is noted that, in the repealed point 4 of Annex XVII to the EEA Agreement, there was a provision according to which for the purposes of the EEA Agreement the expression "in the Community" used in Article 7 (1) of Directive 89/104/EEC was replaced by the expression "in a Contracting Party". Despite the fact that in the inserted point "9 h" there is no corresponding provision regarding Article 7 (1) of Directive 2008/95/EC, this void is filled by Article 2 (1) of Protocol 28 to the EEA Agreement.

[75] So also Gastinel and Milford (2001), p. 148; Sack (1994), p. 898; Sack (1998), p. 567.

[76] See Case C-324/09, n. 17 above, para. 67.

[77] See *supra* Sect. 9.4.1.

Regulation (EC) 207/2009 governs comprehensively the incidents and effects of a Community trademark, while, in accordance with Title X of that Regulation, which is concerned only with jurisdiction and procedure in legal actions relating to Community trademarks, only infringement actions have been left to be governed by national law.[78] Thus, in view of the fact that Article 13 (1) of Regulation (EC) 207/2009 does not explicitly introduce a regime of international exhaustion with respect to Community trademark rights, there is no room for such a regime to be adopted by the Member States.

With respect to the right of the proprietor of a national trademark (hereinafter simply "trademark"), however, the issue as to whether the Member States are allowed to recognise an international exhaustion of that right regime cannot be answered only by the wording of the provision of Article 7 (1) of Directive 2008/95/EC. Directive 2008/95/EC is a partial measure of harmonisation of national laws so that it could, in principle, be suggested that that provision does not comprehensively regulate the issue of the scope of exhaustion of the right in question but establishes a "minimum exhaustion standard", which may be expanded either through the national legislation or the case law of the national courts of the Member States. Besides, the question of whether Member States are allowed to recognise, through legislation or through the case law of their courts, a regime of international exhaustion of trademark rights cannot be answered from the case law developed by the ECJ until Directive 89/104/EEC was adopted. Indeed, as observed in Chap. 7, the ECJ accepted, in *EMI Records v. CBS United Kingdom*, that the exercise of a trademark right in order to prevent the marketing of products originating in a third country under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not fall under the prohibitions set out in Article 30 et seq. of the EEC Treaty (now Article 34 et seq. of the TFEU).[79] Furthermore, in *Polydor and others v. Harlequin and others*, the Court rejected a uniform interpretation of the free movement provisions set out in International Agreements between the Community and third nations and Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).[80] Prior to the adoption of Directive 89/104/EEC, the ECJ's case law, therefore, appeared to accept that trademark proprietors could oppose parallel imports of goods bearing their trademarks that had not put on the market in the Community by themselves or with their consent. However, no conclusion that the recognition of a regime of international exhaustion of trademark rights by the EU Member States would, in the Court's view, be contrary to Articles 34 and 36 of the TFEU[81] can be deduced in complete safety from the aforementioned case law.

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[78] Cf. Article 14 of Regulation 207/2009/EC; Opinion of Advocate General Jacobs in Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799, point 60.

[79] See *supra* Sect. 7.4.1.

[80] See *supra* Sect. 7.4.2.

[81] So also Beier (1989), pp. 613–614; Beier (1990), pp. 156–157; Urlesberger (2002), p. 140.

Thus, mainly in German legal literature, a discourse regarding whether the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and the provision regarding the exhaustion of rights in the German law on trademarks [Article 24 (1) MarkenG] allow for a recognition of the principle of international exhaustion with regard to trademark rights has been developed. The fact that such a discourse has been developed in Germany is no accident. Germany, like many other Member States, accepted, until at least the transposition of Directive 89/104/EEC into their national law, a doctrine of international exhaustion regarding trademark rights.[82] After the provisions of Directive 89/104/EEC have been transposed into German law, however, German case law, following the approach already adopted by the courts of other countries, unanimously accepts that the above-mentioned provisions are exclusive, namely they prohibit such a doctrine.[83] Nevertheless, German legal literature has not taken a uniform position on the interpretation of the above-mentioned provisions, but it has been divided into two opposing views.

According to a large group of academic writers,[84] the provisions of Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 24 (1) of the MarkenG fully regulate the issue of exhaustion of the rights conferred by a trademark so that it is no more possible to accept the principle of international exhaustion of those rights. To support this view, the following arguments have been put forward: firstly, they have referred to the preparatory work for Directive 89/104/EEC[85]; secondly, they have referred to the scheme of Directive 89/104/EEC and, in particular, to the relation between the provisions of Articles 5 (3) (c) and 7 (1) of Directive 89/104/EEC [now Articles 5 (3) (c) and 7 (1) of Directive 2008/95/EC], which should be understood, according to them, as a relationship between a rule and its exception[86]; thirdly, it has been noted that, under Directive 89/104/EEC and MarkenG, the legal protection of trademarks is no longer limited to their origin

[82] See *supra* Sect. 8.2.1.

[83] See, from German case law, BGH, *IIC* 1997, 132 = *GRUR* 1996, 271 with note by Albert/Heath—*Gefärbte Jeans;* LG Düsseldorf, *GRUR Int*. 1996, 732—*Adidas-Import*; OLG München, *GRUR Int*. 1996, 730—*GT ALL TERRA;* OLG Stuttgart, *GRUR Int*. 1998, 806—*Fender—Musikinstrumente*; from French case law, see Cour de Cassation, of 02.12.1997, *GRUR Int*. 1998, 717—*Ocean Pacific*; from Austrian case law, see OGH, *ÖBl* 1995, 170—*Förderband-Abstreifersysteme*.

[84] In favour of this view, see Carboni (1997); Fezer (1998), p. 10; Fezer (2009), § 24 MarkenG, pp. 1632–1635, Nr. 20–23; Gaster (1997), pp. 52–54; Gaster (2000), pp. 578–579; Gloy (1990), pp. 265–266; Harte-Bavendamm and Scheller (1994); Klaka (1994a, b, 1996); Kroher (1996), pp. 254–257; Kunz-Hallstein (1992), p. 90; Kur (1997), p. 245; Nordemann (1995); Rasmussen (1995); Sack (1994); Sack (1998); Sack (1999), p. 211; Sack (2000), pp. 612–613; Wichard (1997).

[85] Carboni (1997), p. 201; Fezer (1998), p. 10; Gaster (1997), pp. 53–54; Gaster (2000), pp. 578–579; Gloy (1990), p. 265; Harte-Bavendamm and Scheller (1994), pp. 574–575; Klaka (1994a), p. 325; Kroher (1996), p. 255; Kur (1997), p. 245; Rasmussen (1995), pp. 175–176; Wichard (1997), p. 712.

[86] Kunz-Hallstein (1992), p. 90.

function but also includes their guarantee and advertising functions. Thus, in view of the fact that the origin function, which under WZG provided the basis for the recognition of the above principle by German legal literature and case law, does not constitute the only function of trademark protected by law, in the light of Directive 89/104/EEC and MarkenG, one cannot accept that the above principle continues to be valid under Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 24 (1) MarkenG[87]; fourthly, they have stressed the need to interpret the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] in a manner consistent with the provision enshrined in Article 13 (1) of Regulation (EC) 40/94, which, as remarked above, prohibits the principle of international exhaustion regarding the exclusive right flowing from the Community trademark and with what applies to the other national intellectual property rights, which are not in dispute, that are subject to a mandatory Community (now EU)-wide exhaustion regime[88]; fifthly, it has been noted that if the Member States had the option to adopt the above principle and only some of them made use of such an option, a situation of incompatibility with the principle of free movement of goods (Articles 28–30 of the EC Treaty, now Articles 34–36 of the TFEU) would be created. This is because goods put on the market without the consent of the proprietors of the trademarks borne by the goods in Member States that would have adopted a regime of international exhaustion of trademark rights could not freely circulate in Member States that would have adopted a regime of Community (EU)-wide exhaustion of trademark rights[89]; sixthly, it has been observed that the drafters of Directive 89/104/EEC consciously decided against the establishment of the above principle, taking into account assessments pertaining to the commercial policy of the Community vis-à-vis its major trade partners, which also do not recognise the above principle. But it has been simultaneously noted that there is a possibility of derogating from the exhaustion regime established in Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 24 (1) of the MarkenG in favour of the above principle by virtue of International Treaties, concluded between the Community (now EU) and its trade

[87] Harte-Bavendamm and Scheller (1994), p. 576; Fezer (1998), p. 10; Klaka (1994a), p. 326, and, especially, Nordemann (1995), p. 317, according to whom the prohibition of international exhaustion of trademark rights under Directive 89/104/EEC and MarkenG is based on the fact that the advertising function of trademarks is protected independently from the trademarks' origin function in the light of those legal instruments.

[88] Gloy (1990), p. 265 [with respect to Regulation (EC) 40/94]; Harte-Bavendamm and Scheller (1994), pp. 574 [with respect to Regulation (EC) 40/94] and 577 (with respect to the other intellectual property rights); Rasmussen (1995), p. 175 [with respect to Regulation (EC) 40/94]; Sack (1994), p. 899 [with respect to Regulation (EC) 40/94]; Sack (1998), pp. 564–565 [with respect to Regulation (EC) 40/94]; Wichard (1997), p. 713 (with respect to the other intellectual property rights).

[89] Wichard (1997), p. 712.

partners, which will introduce the principle of international exhaustion with respect to trademarked goods put on the market in the territory of those countries.[90]

According to another view,[91] the provisions of Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 24 (1) of the MarkenG do not prohibit the principle of international exhaustion of trademark rights. The arguments put forward to support that view are the following: firstly, the wording of the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] is open to different interpretations[92]; secondly, Article 100A of the EEC Treaty (now Article 114 of the TFEU) does not give the Community institutions jurisdiction to fully regulate the issue of exhaustion of the rights conferred by a trademark. On the contrary, it gives the Community (now EU) institutions jurisdiction to harmonise the national laws of the Member States, when such a harmonisation is deemed necessary for the establishment and operation of the common market (now EU's internal market). Consequently, should the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] be seen as exclusive, then such a consideration could have no basis in primary Community (now EU) law[93]; thirdly, a prohibition of the above principle can in no way be adequately and satisfactorily justified in the light of the objectives of the Common market (now EU's internal market). Trade restrictions among Member States cannot be completely eliminated, even if the rules enshrined in Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 24 (1) of the MarkenG were to apply only to goods put on the market within the Community (now EU) by the proprietors of the trademarks borne by the goods or with their consent. Specifically, the Court has already recognised in two judgments (*CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*) that invoking a trademark right with the intent of prohibiting an importation of trademarked goods may outweigh the principle of free movement of goods.[94] From this it follows that one cannot accept, by virtue of a factual connection, that the Community has exclusive competence with respect to the issue of the legality of parallel imports of trademarked goods originating in third countries[95]; fourthly, if the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] were to be regarded as exclusive, this would be inconsistent

[90] Sack (1994), p. 898; Harte-Bavendamm and Scheller (1994), p. 577.

[91] In favour of this view, see Beier (1989), pp. 613–615; Beier (1990), pp. 156–160; Ebenroth (1992), pp. 27–30, Nr. 25–26; Albert and Heath (1996, 1997, 1998); Löwenheim (1996), pp. 312–315; Mailänder (1992), p. 389; Shea (1995), p. 464; Sosnitza (1998); von Gamm (1993), p. 795; von Gamm (1994), pp. 778–779.

[92] Albert and Heath (1998), p. 643; Albert and Heath (1997), p. 26; Löwenheim (1996), p. 314; Sosnitza (1998), p. 954; von Gamm (1993), p. 795; von Gamm (1994), p. 778.

[93] Albert and Heath (1996), p. 277; Albert and Heath (1997), p. 27; Ebenroth (1992), pp. 29–30, Nr. 26.

[94] See *supra* Sect. 7.3.5.4.

[95] Albert and Heath (1996), p. 277; Albert and Heath (1998), p. 643; Albert and Heath (1997), p. 27.

with the fact that, prior to the adoption of Directive 89/104/EEC, the Member States did not follow a uniform policy regarding the exhaustion of trademark rights[96]; fifthly, the Council of the European Communities (now Council of the European Union) itself recognises, in the third recital in the Preamble to Directive 89/104/EEC (now fourth recital of Directive 2008/95/EC), that "it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States and it will be sufficient if approximation is limited to those national provisions of law which most directly affect the functioning of the internal market". Based on this statement and also the note that the issue of the legality of parallel imports of goods originating in third nations is not included among the issues that most directly affect the functioning of the internal market among the Member States, it should be accepted that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] is not an exclusive provision[97]; sixthly, from the preparatory work for Directive 89/104/EEC, it cannot be inferred that the Community (now EU) prohibits the above principle. On the contrary, it can be inferred that the Community (now EU) simply does not force its Member States to recognise the above principle, since forcing the Community (now EU) Member States to recognise the above principle but also imposing on the Member States an obligation not to adopt the above principle would conflict with the principle of subsidiarity, which governs the action of Community (now EU) institutions[98]; seventhly, due to the fact that a Regulation and a Directive are not of the same legal nature, the fact that Regulation (EC) 40/94 [now Regulation (EC) 207/2009] does not introduce the principle of international exhaustion of rights does not mean that that principle is incompatible with Directive 89/104/EEC (now Directive 2008/95/EC)[99]; eighthly, in view of the fact that each intellectual property right serves different purposes, what is true for the exhaustion of the other national intellectual property rights does not affect the interpretation of the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC][100]; ninthly, a prohibition of the above principle cannot be justified in the light of the origin function, which is the function of trademarks primarily legally protected by Directive 89/104/EEC (now Directive 2008/95/EC) and MarkenG[101]; tenthly, a prohibition of the above principle by Directive 89/104/EEC cannot be convincingly justified in the light of Community (now EU) commercial policy assessments, in particular on the basis that that prohibition is deemed necessary to avoid a unilateral concession by the EU to its trade partners that do not also recognise the above principle. This is because many Asian, primarily, states-trade partners of the EU recognise a regime of international exhaustion of trademark rights. Instead, there are economic reasons that argue against a prohibition of the above principle by the

[96] Albert and Heath (1998), p. 643.

[97] Albert and Heath (1998), p. 643; Ebenroth (1992), p. 28; Shea (1995), p. 464.

[98] Albert and Heath (1998), p. 644; Löwenheim (1996), p. 314. Cf. also Ebenroth (1992), pp. 28–29.

[99] Albert and Heath (1998), p. 645.

[100] Albert and Heath (1998), p. 645.

[101] Albert and Heath (1996), p. 278; Löwenheim (1996), p. 315.

provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC]. In particular, such a prohibition would lead to an unjustified, from an economic point of view, protectionism of the industry of the EU Member States and, in addition, would come into conflict with the current trends at international level towards trade liberalisation.[102] Besides, the possibility of extending the geographical scope of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] so as to cover trademarked goods put on the market in third countries, by virtue of International Agreements concluded between the Community (now EU) and its trade partners, which is deduced from the preparatory work for Directive 89/104/EEC, cannot offer a solution to the problems that would arise if the provision in question were to be seen as exclusive, for such a possibility conflicts with Article 4 of the TRIPs Agreement.[103]

The arguments proposed by German legal literature in favour and against viewing Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] as an exclusive provision appear to be equally convincing. Thus, in order to take a position on the dispute described above, an interpretative approach to Article 7 (1) of Directive 2008/95/EC will be attempted in the light of the foregoing arguments and the methods used by the Court to interpret Directives. Prior to this, however, the positions taken on the dispute described above by the European Commission, the Court, and the EFTA Court are presented.

9.4.3 The Position of the European Commission

The legality of the adoption of a regime of international exhaustion of the rights conferred by a trademark was one of the issues on which the European Commission had given its opinion before the Court delivered a ruling.

More specifically, already prior to the delivery of the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*,[104] in which, as will be analysed below, the ECJ expressed against the legality of parallel imports of trademarked goods from nations outside the EEA, the Commission had adopted the same view in reply to written questions addressed by Members of the European Parliament.[105] To justify its view that Article 7 (1) of Directive 89/104/EEC [now

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[102] Albert and Heath (1998), pp. 645–646; Albert and Heath (1996), pp. 278–279; Beier (1989), p. 615; Beier (1990), p. 160, according to whom it cannot be properly supported that the Community legislator wished to force Community Member States to abandon the principles concerning free movement of goods that they recognized prior to the adoption of the EEC Treaty. In the same spirit, Mailänder (1992), p. 389.

[103] Albert and Heath (1998), pp. 646–647.

[104] Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799.

[105] See the Commission's replies (Mr. Monti) to Written Question No. 219/97 by Klaus-Heiner LEHNE (OJ C 319/40 of 18.10.1997) and No. 737/98 by Werner LANGEN (OJ C 402/25 of

Article 7 (1) of Directive 2008/95/EC] constitutes an exclusive provision and prohibits Member States from acknowledging (through legislation or through their courts' case law) a doctrine of international exhaustion of trademark rights, the Commission, firstly, stated that an adoption of the aforesaid doctrine by only some Member States would entail a risk for the internal market to be partitioned and, secondly, referred to the preparatory work for Directive 89/104/EEC from which it clearly follows, according to the Commission, that the Member States are obliged to recognise a doctrine of Community-wide exhaustion of trademarks.

Contrary to the Court's judgments, the Commission's interpretations are not binding on the courts of the Member States. However, the Court confirmed the foregoing interpretation, as we will see in detail below.

9.4.4 The Position of the ECJ and the EFTA Court

9.4.4.1 The First Advisory Opinion of the EFTA Court: The *Mag Instrument Inc. v. California Trading Company Norway*, *Ulsteen* Judgment

As stated above, Directive 89/104/EEC was amongst the Community legal instruments that were incorporated into the legal framework of the EEA.[106] With respect to the Parties to the Agreement on the EEA that are not at the same time Member States of the European Union (Iceland, Norway, and Lichtenstein), namely the EFTA/EEA Member States, the judicial body that has jurisdiction to settle interpretative issues that arise in proceedings concerning Article 7 of Directive 2008/95/EC before national courts is, pursuant to Article 34 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (ESA/Court Agreement), the EFTA Court. As regards the meaning of the phrase "in the Community" used in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], the EFTA Court called on to decide prior to the European Court of Justice. Specifically, this happened in *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen.*[107]

The *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen* judgment was issued at the request of a civil Norwegian court (Fredrikstad byrett), which was asked to decide on the legality of the prohibition of a parallel importation into Norway of trademarked goods that had been put on the market in the USA. Fredrikstad byrett considered that it was necessary to interpret provisions of the EEA Agreement in order to reach a decision and, pursuant to Article 34 of the

22.12.1998). Cf. also the Commission's reply (Mr. Vanni d'Archirafi) to Written Questions No. 3482/93, 3483/93 and 3484/93 by Geoffrey HOON (OJ C 340/36 of 05.12.1994).

[106] See *supra* Sect. 8.2.2.

[107] Case E-2/97, *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*, EFTA Court Report 1997, 127.

Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice, submitted to the EFTA Court the question of whether Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] should be interpreted as prohibiting the EFTA Member States from recognising a doctrine of international exhaustion of the rights conferred by a trademark.[108]

On 03.12.1997, the EFTA Court issued an Advisory Opinion, whose operative part is as follows:

> Article 7, paragraph 1 of Council Directive 89/104/EEC (Trade Mark Directive) referred to in Annex XVII to the EEA Agreement is, in the EEA context, to be interpreted as leaving it up to the EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA.

To justify the above position, namely that the principle of international exhaustion of trademark rights is compatible with Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], the EFTA Court put forward the following arguments.

Firstly, the ECJ's case law up to that date, according to which a trademark proprietor could not oppose parallel imports of goods bearing the trademark that had been put on the market in the Community by him or with his consent, did not concern trademarked goods originating in third countries (outside the EEA). This is because the aforesaid case law was developed under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), which did not apply to goods imported into the Member States of the Community (now EU) from third countries.[109]

Secondly, the ECJ's case law up to that date did not deal with the question of whether Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] prohibits the above principle.[110]

Thirdly, the above principle is in the interests of free movement of goods, competition, and thus in the interest of consumers. Parallel imports from nations outside the EEA lead to greater supply of trademarked goods on the market so that price levels of such goods will be lower than in a market where such goods are imported only through authorised distribution channels.[111]

Fourthly, the above principle is in harmony with the origin function of trademarks, which, in the light of the ECJ's case law, aims to guarantee the identity of the origin of the trademarked product to the consumer or ultimate user by enabling him or her to distinguish without any possibility of confusion that product from

[108] Case E-2/97, n. 107 above, paras 1–11.

[109] Case E-2/97, n. 107 above, paras 15–16.

[110] Case E-2/97, n. 107 above, para. 18.

[111] Case E-2/97, n. 107 above, para. 19.

products that have another origin.[112] Moreover, the protection of goodwill, which had already been recognised,[113] cannot be regarded as a main function of a trademark so that it cannot justify a ban on parallel imports.[114]

Fifthly, an argument against the freedom of the EFTA/EEA Member States to accept the above principle cannot be drawn from the letter of the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].[115]

Sixthly, from the case law of the ECJ up to that date, an obligation of the Member States of the Community (now the EU) to abandon the above principle is not inferred.[116]

Seventhly, from the preparatory work for Directive 89/104/EEC, an argument against the freedom of the EEA Member States to recognise the above principle is also not inferred.[117]

Eighthly, the EEA Agreement does not establish a customs union, as on the contrary the EC Treaty (now the TFEU) does, but a free trade area. Pursuant to Article 8 of the EEA Agreement, the provisions of Articles 11–13 of the Agreement in question introduce the principle of free movement of goods only in relation to goods originating in the EEA, while the free movement of goods provisions of the EC Treaty (now TFEU) apply to all goods that have been legally put on the market in a Community Member State. Thus, the argument suggested by the European Commission and some European governments that if individual States were to be allowed to choose between Community-wide and international exhaustion of trademark rights, this would lead to a situation where the same goods could be imported in parallel into one State but not into another, and, further, to internal disparities in the Community (now EU) market cannot be said to be valid as to the EFTA/EEA Member States.[118]

Ninthly, the EEA agreement does not contain a provision corresponding to that of Article 113 of the EEC Treaty (now Article 207 of the TFEU), i.e. it does not provide for the adoption of a common commercial policy by the EEA Member States vis-à-vis third nations. Consequently, if Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] were to be understood as prohibiting the EFTA/EEA Member States from adopting the above principle, this would mean a restriction of the freedom of those states to adopt their own commercial policy vis-à-vis third nations.[119]

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[112] Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR I-1139, para. 7.

[113] Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV,* [1997] ECR I-6013, paras 39–48.

[114] Case E-2/97, n. 107 above, para. 20.

[115] Case E-2/97, n. 107 above, para. 21.

[116] Case E-2/97, n. 107 above, para. 22.

[117] Case E-2/97, n. 107 above, para. 23.

[118] Case E-2/97, n. 107 above, paras 24–26.

[119] Case E-2/97, n. 107 above, paras 27–28.

Tenthly, the TRIPs Agreement leaves the regulation of the issue regarding the exhaustion of intellectual property rights with the competence of its Parties.[120]

The *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen* decision was favourable to the interests of independent traders (parallel importers and independent resellers) and, partially at least, to the interests of consumers. However, the principles introduced by that decision did not have the chance to be established in the case law of the EEA Member States' national courts. Shortly after the above-mentioned judgment had been issued, the ECJ judged that the principle of international exhaustion of rights is incompatible with Directive 89/104/EEC.

9.4.4.2 The Position of the Court

The Judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*

Especially crucial to the interpretation of the phrase "in the Community" used in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] has been the judgment delivered by the ECJ in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*.[121]

The *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment was issued at the request of the Austrian Supreme Court, which called on to take a position on the legality of a parallel importation into Austria of trademarked goods that had been exported from the EEA and then put on the market in Bulgaria on condition that the purchasers of those goods would be prohibited from reimporting them in the EEA.[122] Specifically, the first of the preliminary questions referred to the ECJ by virtue of Article 234 of the EC Treaty (now Article 267 of the TFEU) by the Austrian Supreme Court was worded as follows:

> Is Article 7(1) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1) to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State [to the EEA Agreement]?

On July 16, 1998, the Court issued a judgment, the operative part of which on the above preliminary question is as follows:

> National rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to

[120] Case E-2/97, n. 107 above, para. 29.

[121] Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799.

[122] Case C-355/96, n. 121 above, paras 6–14.

approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992.

To support the foregoing position, the Court relied on the wording of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and on the scheme and the purpose of the rules of Directive 89/104/EEC. The reasoning of the judgment is, in particular, as follows:

According to the wording of the provisions of Articles 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC) and 65 (2) of the European Economic Area Agreement (EEA) in conjunction with Annex XVII, note 4 of the aforesaid Agreement, only trade marks borne by goods which have been put on the market in the EEA are subject to the rule enshrined in Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC).[123] The provision of Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC) cannot be viewed as a minimum standard but, rather, as a provision which fully regulates the issue of exhaustion of trade mark rights.[124] In particular, in accordance with the third recital in the Preamble to Directive 89/104/EEC (now the fourth recital in Directive 2008/95/EC), "it does not appear to be necessary to undertake full-scale approximation of the trade mark laws of the Member States." However, Directive 89/104/EEC (now Directive 2008/95/EC) provides for harmonization in relation to substantive rules of central importance in the field of trade marks, namely, according to the same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market. With respect to those rules, the aforementioned recital does not preclude the harmonization from being complete. Moreover, according to the first recital in the Preamble to Directive 89/104/EEC (now the second recital in the Preamble to Directive 2008/95/EC), "the trade mark laws at present applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market; it is therefore necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States". Furthermore, the ninth recital in the Preamble to Directive 89/104/EEC (now the tenth recital in the Preamble to Directive 2008/95/EC) notes "in order to facilitate the free circulation of goods and services, to ensure that henceforth registered trade marks enjoy the same protection under the legal systems of all the Member States, but this should not prevent the Member States from granting at their option extensive protection to those trade marks which have a reputation". In the light of those recitals, Articles 5 and 7 of Directive 89/104/EEC (now Articles 5 and 7 of Directive 2008/95/EC) must be interpreted as embodying a complete harmonization of the rules relating to the rights conferred by a trade mark, as it is also confirmed by the fact that Article 5 (2) of Directive 89/104/EEC (now Articles 5 (2) of Directive 2008/95/EC), to which the ninth recital in the Preamble to Directive 89/104/EEC (now the tenth

[123] Case C-355/96, n. 121 above, para. 18.

[124] Case C-355/96, n. 121 above, para. 25.

recital in the Preamble to Directive 2008/95/EC) refers, gives the Member States the option to grant more extensive protection to trade marks with a reputation.[125] In addition, in favour of considering Article 7 (1) of Directive 89/104/EEC (now Article 7 (1) of Directive 2008/95/EC) to be an exclusive provision is the purpose of Directive 89/104/EEC (now Directive 2008/95/EC), which serves the purpose of safeguarding the functioning of the internal market. That purpose would be undermined if a situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion were to be accepted. This is because such a situation would inevitably lead to the creation of barriers to the free movement of goods and the freedom to provide services.[126]

The Court also rejected the claim by the Swedish Government that Directive 89/104/EEC (now Directive 2008/95/EC), adopted on the basis of Article 100A of the EEC Treaty (now Article 114 of the TFEU), which governs the approximation of the laws of the Member States concerning the functioning of the internal market, could not regulate relations between the Member States and third countries so that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] could be construed as meaning that Directive 89/104/EEC (now Directive 2008/95/EC) applies only to intra-Community relations. In the Court's view, even if Article 100A of the EEC Treaty (now Article 114 of the TFEU) were to be construed in the way suggested by the Swedish Government, this does not affect the fact that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] is not intended to regulate relations between Member States and non-Member States but to define the rights of trademark proprietors in the Community (now the EU).[127]

Finally, the Court stressed the ability of the Community authorities to extend the exhaustion of rights rule provided for in Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC) to trademarked products put on the market in third countries by concluding International Agreements with those countries in that sphere.[128]

It is obvious that, after the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment has been delivered, the previously ongoing dialogue among German academic writers regarding whether the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] is an exclusive provision lost its practical relevance. The ECJ, by adopting an unfavourable interpretation to independent traders (parallel importers and independent resellers) and, partially at least, to consumers and, simultaneously, a favourable interpretation to the trademark proprietors of the phrase "in the Community" used in that provision, accepted that trademark proprietors can prohibit parallel imports of trademarked goods that have not been put on the market in the EEA by the

[125] Case C-355/96, n. 121 above, paras 23–25.

[126] Case C-355/96, n. 121 above, para. 27.

[127] Case C-355/96, n. 121 above, paras 28–29.

[128] *I* Case C-355/96, n. 121 above, para. 30.

proprietors themselves or with their consent. The Court, indeed, reaffirmed this position in following judgments, so that there is now a settled case law on the issue.[129]

In the light of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment, therefore, the EU Member States are precluded from adopting a doctrine of international exhaustion of the exclusive right flowing from the trademark, through legislation or through their courts' case law, since such a doctrine is incompatible with Article 7 (1) of Directive 2008/95/EC. It is clarified that, based on the above-mentioned judgment, the proprietor of a trademark in a Member State of the EU may oppose parallel imports of goods bearing the trademark originating in third countries (outside the EEA), even if the country in which such goods have been put on the market by him or with his consent is contractually related to the EU by virtue of a "Europe Agreement" within the meaning of Article 217 of the TFEU. Indeed, the above-mentioned judgment does not allow for the exhaustion of trademark rights with respect to trademarked goods that have not put on the market in the EEA, even if the nation in which such goods have been put on the market is in the final stage of accession to the EU.[130]

Reactions Among Legal Writers to the Outcome of the Judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*

The *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment was met with scepticism and criticism not only by academic writers but others in the profession as well.

In particular, in legal literature, it was supported that the outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment is incompatible with GATT/WTO Law, in particular with the provisions of Articles III (4), XI (1) and XXIV of the GATT 1994, and also the principle of proportionality, which governs GATT/WTO Law.[131] Furthermore, that judgment was subject to criticism on the basis that the Court did not take account of its consequences for the world trade[132] and also on the basis that it prohibits the principle of international exhaustion of trademark rights, despite the fact that the Supreme Court of the USA,

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[129] See Case C-173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, [1999] ECR I-4103; Joined Cases C-414/99 to 416/99, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, [2001] ECR I-8691. For an analysis of those judgments, see *infra* Sects. 9.5.2.2 and 9.5.2.3.

[130] For the opposite view, supported before the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* was delivered, see *supra* Sect. 7.4.2.

[131] Kuilwijk (1999). Based on the findings of Part II of this book, the principle of international exhaustion of trademark rights seems to be more compatible with the GATT 1994; however, that Agreement, as well as GATT/WTO law, as a whole, does not prohibit the principle of regional exhaustion of trademark rights.

[132] Harlander (2000), p. 275.

the most important trade partner of the European Union, had recognised by a judgment in the late 1980s, at least in principle, the validity of that principle.[133] Moreover, difficulties of implementing the judgment in question, which arise due to the fact that the Member States' customs services are not authorised to detain genuine goods originating in third countries (outside the EEA), have been noted.[134] Finally, it has been said that the judgment in question leads to the isolation of the Community market,[135] that it legitimises the use of the exhaustion of rights doctrine as an instrument to pursue commercial policy objectives,[136] and that it also expresses towards protectionism of European economy.[137] The above judgment received only isolated instances of applause based on the argument that its outcome entails the strengthening of the position of trademark proprietors in the Community market.[138] Finally, there was no shortage of views that attempted to convince us that the debate surrounding the legality of international exhaustion of rights in the light of Directive 89/104/EEC was far from over in spite of the outcome of the judgment in question.[139]

The *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment was also treated with scepticism on the part of economic theory. Thus, according to a study by the Swedish Competition Authority, the prohibition of international exhaustion of trademark rights will cause, as far as the Swedish market is concerned, job losses, a fall in tax revenue, as well as a rise in products' prices, directly because of the prohibition of parallel trade from nations outside the EEA and indirectly because of the elimination of intra-brand competition

[133] See Littman (1999), pp. 498–501. However, as derived from the analysis of the relevant provisions of US law, the aforementioned law de facto recognises a doctrine of national exhaustion of trademark rights. See *infra* Sect. 13.1.

[134] See Clark (1999). Indeed, the Member States' customs services are not authorised to detain parallel imported trademark goods. See Article 3 (1) of Regulation (EC) 1383/2003 of 22 July 2003 "concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights" (OJ 2003 L 196/7) and Article 1 (4) of Council Regulation (EC) No 3295/94 of 22 December 1994 "laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods" (OJ 1994 L 341/8), which was applicable when the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment was issued.

[135] Joller (1998), p. 765.

[136] Joller (1998), p. 765.

[137] Beckmann (1998), p. 841; Sosnitza (1998), p. 959.

[138] Renck (1998), p. 566.

[139] See Hansen and Hays (1998), according to whom the Court would have ruled differently in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, had it known all of the facts of the case, from which it followed, firstly, that the disputed prohibition concerned in reality a reimportation of goods that went from the inside the Community market to the outside and not a parallel importation stricto sensy, and, secondly, that the prohibition was incompatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU]; see also Jones (2000), according to which, despite the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment, the Member States could still adopt a regime of international exhaustion of trademark rights in the light of Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU).

developed in the context of that trade.[140] The survey by the Danish Inter-Ministerial Working Group reaches similar conclusion with respect to the Danish market.[141] Also, according to a survey carried out by the Irish Competition Authority, a prohibition of international exhaustion of trademark rights may lead to an increase in price levels in the EU in two ways, namely, firstly, by allowing trademark proprietors to prohibit parallel trade and, secondly, by excluding parallel trade as a factor promoting competition on price.[142] Finally, the UK Select Committee on Trade and Industry survey suggests that an international exhaustion of trademark rights regime seems to be more favourable to the consumer with respect to certain product categories (clothing and shoes, automobiles, perfumes and cosmetics) but not in relation to the products of the pharmaceutical and music industries.[143] The "NERA Study",[144] prepared for the European Commission, supported isolatedly the above judgment. In particular, it follows from the findings of the aforementioned study that its authors appear to be rather negative towards the prospect of the legality of parallel imports of trademarked goods from nations outside the EEA being established.[145]

Finally, it is worth mentioning that the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment was greeted with scepticism and criticism even by part of the European press.[146]

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[140] Swedish Competition Authority (1999).

[141] Danish Patent and Trademark Office (1999).

[142] Kenny and McNutt (1999).

[143] Trade and Industry Committee (1999).

[144] National Economic Research Associates, SJ Berwin and IFF Research ("NERA") (1999).

[145] According to the findings of NERA, the legality of parallel imports of trademarked goods from third countries (outside the EEA) would result, firstly, in a reduction of retail prices for goods made available in the EEA market; secondly, in a slight increase in production and, further, in an increase in the volume of goods offered for sale in the EEA market and in a slight rise in employment; and, thirdly, in a reduction of profit margins of European undertakings, which would be higher where margins are already low.

[146] Among the newspapers from the British and Austrian press that one day following the judgement in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* (17.07.1998) expressed criticism in relation to that judgement were Der Standard (*Hartlauer:* "Urteil gegen die europäischen Konsumenten"); Salzburger Nachrichten; Die Presse; Tiroler Tageszeitung; The Independent (*Griffiths*: "Quite clearly this is bad news for the consumers. It allows foreign manufacturers to dictate the prices British consumers have to pay"); The Express (*McKechnie*: "This runs completely counter to how the market is supposed to operate: consumers are supposed to set prices, not the manufacturers"); Financial Times; The Daily Telegraph. See also Carboni (1998), p. 472, who notes that British supermarkets and U.K. government ministers expressed also concern about that judgement.

The Issue of Internet Sales

An issue arises regarding the impact of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment and the subsequent case law that affirmed the aforesaid judgment on the internet sales between independent traders operating outside the EEA and consumers established in the Member States of the EU. Indeed, the outcome of that judgment and also the rule enshrined in Article 13 (1) of Regulation (EC) 207/2009, which provides for Union-wide exhaustion of Community trademark rights, could be circumvented via the internet, that is to say through an internet sale of trademarked goods that have not been put on the market in the EEA by the proprietor of the trademark or with his consent by an independent trader operating outside the EEA to a consumer established in a Member State of the EU. This possibility was dealt with by the Court in its most recent judgment in *L'Oréal and others*.[147] In the aforesaid case, the Court in order to prevent a de facto introduction of a doctrine of international exhaustion of the exclusive rights arising from the national trademark and Community trademark in relation to goods that are offered for sale and advertised via the internet by operators established outside the EEA held that "where goods located in a third State, which bear a trade mark registered in a Member State of the EU or a Community trade mark and have not previously been put on the market in the EEA or, in the case of a Community trade mark, in the EU, (i) are sold by an economic operator through an online marketplace without the consent of the trade mark proprietor to a consumer located in the territory covered by the trade mark or (ii) are offered for sale or advertised on such a marketplace targeted at consumers located in that territory, the trade mark proprietor may prevent that sale, offer for sale or advertising by virtue of the rules set out in Article 5 of Directive 89/104 or in Article 9 of Regulation No 40/94. It is the task of the national courts to assess on a case-by-case basis whether relevant factors exist, on the basis of which it may be concluded that an offer for sale or an advertisement displayed on an online marketplace accessible from the territory covered by the trade mark is targeted at consumers in that territory".[148]

The proprietor of a (national or Community) trademark may, therefore, oppose an internet sale, offer for sale, and advertising of goods bearing the trademark that have not been put on the market by the proprietor himself or with his consent within the EEA (regarding goods bearing a national trademark) or within the EU (regarding goods bearing a Community trademark).[149] Such a sale, offer for sale, and advertising constitute an infringement of the rights provided for in Articles 5 of

[147] Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011.

[148] Case C-324/09, n. 147 above, para. 67.

[149] As follows from the excerpt from the decision *L'Oréal and others* cited above, the Court does not accept the application of the rule enshrined in Article 13 (1) of Regulation (EC) 207/2009 in relation to goods put on the market in an EFTA/EEA Member State. This approach, however, does not appear to be the correct one, given that the provision of Article 2 (1) of Protocol 28 to the EEA agreement, which extends the scope of the exhaustion of intellectual property rights provisions

Directive 2008/95/EC and 9 of Regulation 207/2009/EC.[150] It is up to the national courts to assess on a case-by-case basis whether relevant factors exist, on the basis of which it may be concluded that an offer for sale or an advertisement displayed on an online marketplace accessible from the territory covered by the trademark is targeted at consumers in that territory, which may be included in the territory of the EU or the EEA, depending on whether the goods in question bear a Community or a national trademark, correspondingly.

9.4.4.3 The Second Advisory Opinion by the EFTA Court: Judgment *L'Oréal Norge AS and others v. Per Aarskog AS and others*

After the decision in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* had been issued, legal literature was called upon to resolve the conflict that had arisen between that decision and the Advisory Opinion of the EFTA Court in *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*. This was attempted on the ground that the prohibition of the principle of international exhaustion of trademark rights established in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* was directed at the EU Member States but not at the EFTA/EEA ones. Specifically, it was suggested that, in the light of the aforementioned decisions, the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] must be seen as an exclusive provision in relation to the EU Member States and as a minimum standard in relation to the EFTA/EEA Member States.

In particular, the freedom of the EFTA/EEA Member States to recognise a regime of international exhaustion of trademark rights was justified, in the light of the Advisory Opinion of the EFTA Court in *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*, by reference to the different nature of the EC Treaty (now TFEU) and the EEA Agreement, the first of which aimed to create a customs union, while the second aimed to establish a free trade area.[151] Thus, it was supported that goods imported from countries outside the EEA are not subject to a single tariff, that is to say each individual EFTA State is a separate Customs territory, independent from the European Community (now European Union). Additionally, it was argued that, according to Article 8 (2) of the EEA Agreement, the free movement of goods provisions of that Agreement apply only to goods "originating in an EEA Member State", in contrast to the free movement of goods provisions of the EC Treaty (now TFEU), which are applicable to any good that has been released for free circulation within the meaning of Articles 29 of the TFEU and 129 of the European Union's Customs Code [Regulation (EC) 450/2008],

included in the European legislation to goods put on the market in EFTA/EEA Member States, is general, that is to say it covers also the Community trademark right. See *supra* Sect. 9.4.1.

[150] See *infra* Sect. 9.6.1.

[151] Alexander (1999), p. 66; Baudenbacher (2003), pp. 890–891; Carboni (1998), p. 473; Prince (1999), p. 12; Toutoungi (2006), pp. 112–113.

regardless of its origin.[152] Finally, it was noted that the EEA Agreement does not contain a provision corresponding to Article 133 of the EEC (now Article 207 of the TFEU), that is to say it does not provide for the adoption of a common commercial policy by the EEA Member States vis-à-vis third nations. Consequently, if Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] were to be understood that it prohibits the EFTA/EEA Member States from adopting the principle of international exhaustion of trademark rights, this would mean a restriction of the freedom of those states to adopt their own commercial policy vis-à-vis third nations.[153] According to one view, indeed, the result of the *Mag Instrument Inc. v. California Trading Company Norway* judgment should not have been limited to goods originating in an EEA Member State, since from the provisions of Articles 65 (2) of the EEA Agreement and 2 of Protocol 28 to the same Agreement it follows that the origin of a trademarked product has no effect on the application of the doctrine of exhaustion of rights.[154]

The consideration of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] as a maximum standard in relation to the EU Member States (in the light of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* decision) and as a minimum standard in relation to the EFTA/EEA Member States (in the light of the *Mag Instrument Inc. v. California Trading Company Norway* decision), which was proposed by legal authors, produces no effect after the second Advisory Opinion of the EFTA Court on the freedom of the EFTA/EEA Member States to adopt a regime of international exhaustion of trademark rights in *L'Oréal Norge AS v Per Aarskog AS and Others*.[155]

The *L'Oréal Norge AS v Per Aarskog AS and Others* judgment was delivered at the request of two civil Norwegian courts (Follo tingrett and Oslo tingrett), which were asked to decide on the legality of parallel imports of trademarked goods that had been not put on the market in the EEA by the trademark proprietors or with their consent. Follo tingrett and Oslo tingrett considered that it was necessary to interpret provisions of the EEA Agreement in order to reach a decision and, pursuant to Article 34 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice, referred to the EFTA Court the question of whether Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] allows for a doctrine of international exhaustion of trademark rights.[156]

On 08.07.2008, namely nearly 10 years after the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* had been issued, the EFTA Court issued a judgment whose operative part is as follows:

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[152] Alexander (1999), p. 66; Baudenbacher (2003), pp. 890–891; Carboni (1998), p. 473.

[153] Case E-2/97, n. 107 above, paras 27–28.

[154] Toutoungi (2006), p. 112.

[155] Joined Cases E-9/07 and E-10/07, *L'Oréal Norge AS v Aarskog Per AS and Others and Smart Club Norge,* EFTA Court Reports 2008, 259.

[156] Joined Cases E-9/07 and E-10/07, n. 155 above, paras 1–11.

> Article 7 (1) of First Council Directive of 21 December 1988 to approximate the laws of the Member States relating to trade marks (89/104/EEC) is to be interpreted to the effect that it precludes the unilateral introduction or maintenance of international exhaustion of rights conferred by a trade mark regardless of the origin of the goods in question.

At the beginning of the judgment's reasoning, the EFTA Court recognised that, before its Advisory Opinion in *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen* was issued, the interpretation of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], in particular the phrase "in the Community" used in that Article, had been disputed in legal circles. Then it referred to the different outcomes of the decision in *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*, on one hand, and the decisions in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* and *Sebago and Maison Dubois*,[157] on the other, noting that the operative part of the *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen* decision was based on the findings that the EEA Agreement does not establish a customs union so that its Parties are not obliged to adopt a common commercial policy and that the EFTA/EEA States remain free to enter into treaties and agreements with third countries in relation to foreign trade.[158] As regards the possibility that the EFTA Court and the ECJ reach different conclusions on the same issue, the EFTA Court noted that such a possibility is an inherent consequence of the institutional system of the EEA, which foresees two courts at the international level, the EFTA Court and the ECJ, interpreting the common rules.[159] Furthermore, although it stressed that the EFTA Court is obliged to take into account the previous case law of the ECJ on a specific issue before the EFTA Court delivers its decision on the same issue, it nonetheless noted that neither Article 3 (2) of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice nor Article 2 (1) of Protocol 28 to the EEA Agreement explicitly addresses the situation where the EFTA Court has ruled on an issue first and the ECJ has subsequently come to a different conclusion.[160] However, it held that the consequences for the internal market within the EEA are the same in that situation as in a situation where the ECJ has ruled on an issue first and the EFTA Court subsequently were to come to a different conclusion.[161] Based on this observation, the EFTA Court deemed that its case law on the meaning of the phrase "in the Community" used in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] must be harmonised with the ECJ's case law, even if the EFTA Court had already ruled on the same issue.[162] Moreover, the EFTA Court answered the question of whether the differences between the EEA Agreement and the EC Treaty (now TFEU) with

[157] See *supra* n. 121 and 129.

[158] Joined Cases E-9/07 and E-10/07, n. 155 above, paras 26–27.

[159] Joined Cases E-9/07 and E-10/07, n. 155 above, para. 28.

[160] Joined Cases E-9/07 and E-10/07, n. 155 above, paras 28–29.

[161] Joined Cases E-9/07 and E-10/07, n. 155 above, para. 29.

[162] Joined Cases E-9/07 and E-10/07, n. 155 above, para. 29.

regard to trade relations with third countries constitute compelling grounds for divergent interpretations of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] in EEA law and in EC (now EU) law in the negative. This position was based on the provision of Article 65 (2) of the EEA Agreement and Article 2 (1) of Protocol 28 to that Agreement. According to the provision of Article 65 (2) of the EEA Agreement, the provisions included in Protocol 28 and Annex XVII to the EEA Agreement are applicable to all products, unless otherwise specified, namely neither Article 65 (2) of the EEA Agreement nor Protocol 28 and Annex XVII to the EEA Agreement make any reservation against rules providing for mandatory EEA-wide exhaustion of rights in relation to goods originating in third countries (outside the EEA). In addition, Article 2 (1) of Protocol 28 to the EEA Agreement obliges the Parties to that Agreement to provide for such exhaustion of intellectual property rights as laid down in Community (EU) law. That latter provision allows for the incorporation into Annex XVII of legal acts providing for mandatory EEA-wide exhaustion of rights, regardless of the origin of the goods covered by the rights.[163]

9.4.4.4 Remarks

After the judgments of the ECJ in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* and of the EFTA Court in *L'Oréal Norge AS v Per Aarskog AS and Others* have been issued, the previously ongoing dialogue among legal writers regarding whether the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] is a maximum standard lost its practical relevance for all the Member States of the EEA (the EU Member States and EFTA/ EEA Member States). Trademark proprietors may prohibit parallel imports of trademarked goods that have not been put on the market within the EEA by the proprietors or with their consent. As explicitly noted in the first of the previously mentioned judgments, derogation from the aforesaid principle can be accepted, in relation to the EU Member States, only in cases where the Community (now EU) authorities have extended the rule on exhaustion of rights, provided for in Article 7 of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC), to trademarked products put on the market in third countries by concluding International Agreements with those countries in that sphere. Also, it is to be noted that the Court reaffirmed the outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment in subsequent judgments, so that nowadays there is a settled case law on this issue.[164] To open up, therefore, the markets of the EEA Member States to parallel imports of trademarked products originating outside the EEA, the only solution appears to be the amendment of the applicable EU trademark law.

[163] Joined Cases E-9/07 and E-10/07, n. 155 above, paras 31–37.
[164] See *supra* n. 129.

9.4.5 Interpretative Approach to Article 7 (1) of Directive 2008/95/EC

9.4.5.1 Introduction

In spite of the fact that, after the Court's decision in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, the previously ongoing dialogue among legal writers regarding the possibility of the EU Member States acknowledging (through legislation or their court's case law) a regime of international exhaustion of national trademark rights is practically over, the question that still remains open is whether the consideration of the provision of Article 7 (1) of Directive 2008/95/EC as an exclusive provision or, in other words, as a maximum standard may be supported sufficiently by an interpretative approach to it.

To answer that question, an interpretative approach to the provision of Article 7 (1) of Directive 2008/95/EC will be attempted in the light of the arguments that have been put forward in favour and against the consideration of that provision as exclusive[165] and the interpretation methods employed by the Court to interpret Directives.[166] Then we will examine whether the result of that interpretative approach complies with higher-ranking sources of law, in particular with EU primary law and GATT/WTO Law.

9.4.5.2 The Wording of Article 7 (1) of Directive 2008/95/EC

Pursuant to the wording of Article 7 (1) of Directive 2008/95/EC, for the exclusive right flowing from a national trademark to be exhausted, goods bearing the trademark must have been put on the market "in the Community" (now in the European Union) by the trademark proprietor or with his consent.[167] As has been rightly stated, it follows from the wording of the previously mentioned provision that the Member States are not allowed to acknowledge a regime of national exhaustion of trademark rights but not that the Member States are obliged to accept the exhaustion of trademark rights only in relation to trademarked goods put on the market in the EEA.[168] In other words, it does not follow in complete safety from the letter of Article

[165] See *supra* Sect. 9.4.2.

[166] Regarding the interpretation methods employed by the Court, see, *inter alia*, Anweiler (1997), Bleckmann (1982), and Buck (1998).

[167] As already pointed out, pursuant to Article 2 (1) of Protocol 28 to the Agreement on the EEA, putting a trademarked good on the market in the European Union is equivalent to putting a trademarked good on the market in a Member State of the European Free Trade Association/ European Economic Area. See *supra* Sect. 9.4.1.

[168] So Albert and Heath (1996), p. 276; Albert and Heath (1997), p. 26; Albert and Heath (1998), p. 643; Beckmann (1998), p. 838; Freytag (2001), p. 190; Joller (1998), p. 757; Kairies (2001), pp. 60–61; Kroher (1996), p. 254; Litpher (1997), p. 195; Löwenheim (1996), p. 314; Mulch (2001), pp. 44–45; Rinnert (2000), p. 74; Sack (1998), p. 562; Sosnitza (1998), p. 954; von Gamm

7 (1) of Directive 2008/95/EC that the Member States are not allowed to acknowledge the legality of parallel imports of trademarked goods originating outside the EEA.

The failure of the wording of the provision of Article 7 (1) of Directive 2008/95/EC to answer the question pertaining to the legality of international exhaustion of rights in the light of Directive 2008/95/EC is also confirmed by a comparison between the wording of that provision and the provision of Article 9 of Directive 2006/115/EC,[169] which introduces the principle of Union-wide exhaustion of the right to distribute goods covered by rights related to copyright.[170] According to the latter provision, "The distribution right shall not be exhausted within the Community in respect of an object as referred to in paragraph 1, *except* where the first sale in the Community of that object is made by the right holder or with his consent" (emphasis added). The use of the term "except" in the aforesaid provision makes it undisputable that the EU lawmaker wanted the right to distribute a good protected by rights related to copyright to be exhausted only in the case where a transfer of ownership of such a good takes place within the EU. On the other hand, the non-use of the wording of Article 9 (2) of the Directive 2006/115/EC in Article 7 (1) of Directive 2008/95/EC brings into question the claim that the wording of Article 7 (1) of Directive 2008/95/EC prohibits international exhaustion of rights.[171]

9.4.5.3 The Scheme of Directive 2008/95/EC

The consideration of Article 7 (1) of Directive 2008/95/EC as an exception to the rule enshrined in Article 5 of Directive 2008/95/EC, according to which a trademark proprietor is entitled to prevent all third parties not having his consent from importing goods bearing the trademark,[172] requires, in some authors' opinion, that the elements of Article 7 (1) of Directive 2008/95/EC, including the phrase "in the Community", be narrowly construed. In the light of such a narrow interpretation, it is not possible to accept a further limitation of the rights conferred on a trademark proprietor by Article 5 of Directive 2008/95/EC, such as a regime of international exhaustion of those rights.[173]

(1993), p. 795; von Gamm (1994), p. 778; Wichard (1997), pp. 711–712, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[169] Directive 2006/115/EC "on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version)" (OJ L 376/28 of 27.12.2006).

[170] So also Albert and Heath (1997), p. 26; Albert and Heath (1996), pp. 276–277; Freytag (2001), p. 190 n. 306; Kairies (2001), p. 61; Löwenheim (1996), p. 314; Rinnert (2000), pp. 74–75, in relation to Article 9 (2) of Directive 92/100/EC [now Article 9 (2) of Directive 2006/115/EC] and Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[171] *Contra* Gaster (1997), p. 54; Harte-Bavendamm and Scheller (1994), p. 574. According to them, the wording of Article 7 (1) of Directive 89/104/EOK [now Article 7 (1) of Directive 2008/95/EC] prohibits international exhaustion of rights.

[172] See *supra* Sect. 8.1.2.

[173] So Kunz-Hallstein (1992), p. 90; Mulch (2001), p. 68, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

Nevertheless, according to another rather better opinion, a correlation between Article 7 (1) of Directive 2008/95/EC and Article 5 of Directive 2008/95/EC does not lead to an argument against the possibility of the Member States accepting the legality of parallel imports of trademarked products originating outside EEA.[174] This is because a narrow interpretation of the provision of Article 7 (1) of Directive 2008/95/EC presupposes that between Article 5 of Directive 2008/95/EC and that provision, there is a relationship between a rule and an exception to that rule in accordance with what is generally accepted with regard to the application of the systemic interpretation of national provisions.[175] In this case, nevertheless, it is doubtful if the provision of Article 7 (1) of Directive 2008/95/EC can be regarded as a "provision – exception" to Article 5 of Directive 2008/95/EC. In particular, the provision of Article 7 (1) of Directive 2008/95/EC expresses one of the fundamental principles of the TFEU, i.e. the principle of free movement of goods (Article 34 of the TFEU) in EU secondary legislation. On the contrary, Article 5 of Directive 2008/95/EC expresses a provision of an exceptional nature of the TFEU, namely the provision Article 36, subparagraph 1 of the TFEU, which for specific grounds, such as the protection of the specific subject matter of the exclusive right flowing from the trademark, allows for a derogation from Article 34 of the TFEU. Consequently, in the light of a correlation between Article 7 (1) of Directive 2008/95/EC and Article 5 of Directive 2008/95/EC, the provision of Article 7 (1) of Directive 2008/95/EC is the one that should be regarded as a "provision – rule".[176] However, if the provision of Article 7 (1) of Directive 2008/95/EC is to be seen as a "provision – rule", a narrow interpretation of its elements, namely an interpretation that leads to the Member States being precluded from acknowledging the legality of parallel imports of trademarked goods originating in third countries (outside the EEA), is incompatible with that provision's nature.[177] On the contrary, on the basis of this approach, a correlation between Articles 5 and 7 of Directive 2008/95/EC entails a narrow interpretation of the provision of Article 7 (2) of Directive 2008/95/EC, which introduces an exemption to the principle of EU-wide exhaustion of national trademark rights.[178]

[174] So Freytag (2001), p. 193; Kairies (2001), p. 69; Litpher (1997), p. 205; Rinnert (2000), p. 105, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[175] See Larenz and Canaris (1995), pp. 175–176.

[176] Cf. Opinion of the Advocate General Jääskinen in Case C-324/09, n. 147 above, point 73, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[177] So also Freytag (2001), p. 193; Kairies (2001), p. 69; Litpher (1997), pp. 205–206; Rinnert (2000), p. 105, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[178] So also Litpher (1997), pp. 206–207, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

9.4.5.4 The travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94

The first efforts towards developing a Community law on trademarks are reflected in the "Preliminary Draft of a Convention for a European Trade Mark" (1964) and in the Commission Memorandum on the creation of a Community trade mark (1976). These texts contained, *inter alia*, the first Community provisions on exhaustion of trademark rights. Those provisions introduced a doctrine of international exhaustion of trademark rights since they did not make the exhaustion of trademark rights contingent on the place where trademarked goods had been put on the market.[179] However, the principle of international exhaustion of trademark rights was also acknowledged in the "Draft Council Regulation on the Community trade mark" of July 1978[180] and the "Draft Council Directive to approximate the laws of the Member States relating to trade marks" of July

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[179] According to Article 16 of the "Preliminary Draft of a Convention for a European Trade Mark" (1964):

> Limitation of rights attached to a European trade mark
>
> 1. The European trade mark does not confer on its proprietor the right to oppose the use in commerce of the trade mark or of a similar mark for goods bearing this trade mark or a similar trade mark which *have been marked*
>   (a) by the proprietor of the European trade mark or with his consent or
>   (b) by a person in a commercial relationship with the proprietor of a European trade mark or with the consent of such a person.
> 2. A person shall be deemed to be in a commercial relationship with the proprietor of a European trade mark if the person can exert a significant influence in respect of the trade mark on the proprietor of the trade mark or if the proprietor of the trade mark can do so on that person or if a third party can do so on that person and on the proprietor of the trade mark either directly or indirectly.
> 3. Paragraph 1 shall not apply if the condition of the goods is altered or impaired (emphasis added).

See the original text in German in Hefermehl and Fezer (1979), p. 8 n. 16. Also, according to Commission Memorandum on the creation of a Community trademark (1976), point 116:

> It is consistent with the traditional function of a trade mark, as defined in this Memorandum, and with the principle of the free movement of goods within the common market, that the trade mark owner's exclusive right to use the trade mark does not extend to goods which *have been placed on the market* by him or by a firm with which he has commercial relations (such as a subsidiary, a licensee or the like). This principle, known as "exhaustion of trade mark rights", was dealt with comprehensively in the 1964 Draft both for EEC trade marks and for the concurrent use of an EEC and a national trade mark by the same owner (emphasis added).

See the original text in German in "Denkschrift über die Schaffung einer EWG-Marke", *GRUR Int*. 1976, 489, 494.

[180] Document No. III/D/753/78-DE of July 1978. See "Entwurf einer Verordnung des Rates über die Gemeinschaftsmarke", *GRUR Int*. 1978, 452.

1979.[181,182] The view of the Commission of European Communities (now the European Commission), the initiator of the Community legislation, that it was not relevant for the exhaustion of the right of the trademark proprietor where a good bearing the trademark had been put on the market was also confirmed by the exhaustion of rights provisions of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" and the Commission's "Proposal for a Council Regulation on Community trade marks".[183] Besides, the establishment of the principle of international exhaustion

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[181] Document No. III/D/1293/79, published in *GRUR Int*. 1980, 31.

[182] According to Articles 14 of the "Draft Council Regulation on the Community trade mark" of July 1978 and 5 of the "Draft Council Directive to approximate the laws of the Member States relating to trade marks" of July 1979:

1. The [national or Community] trade mark does not confer on its proprietor the right to oppose the use in commerce of the trade mark for goods bearing this trade mark which *have been put on the market* by the proprietor of the trade mark or with his consent.
2. Paragraph 1 shall not apply:

   (a) where the proprietor of the trade mark is not able to control the composition and the quality of the goods before they are put on the market *outside the Community*.
   (b) where the condition of the goods is modified or impaired after they have been put on the market. (emphasis added)

The text of the above Articles has been translated by the author from German. The fact that the above Articles introduced the principle of international exhaustion of rights does not only follow from the wording of paragraph 1 of those Articles, which did not limit the scope of exhaustion to goods that had been put on the market in the Community. Also, paragraph 2 of those Articles excluded the applicability of that principle where the trade mark proprietor was unable to control the composition and the quality of the goods before the latter were put on the market "*outside the Community*" (emphasis added).

[183] COM (80) 635 final of 27.11.1980, OJ C 351/1 of 31.12.1980, also published in GRUR Int. 1981, 30 (Vorschlag einer ersten Richtlinie des Rates zur Angleichung des Markenrechts der Mitgliedstaaten) and 86 (Vorschlag einer Verordnung des Rates über die Gemeinschaftsmarke—Einleitung).

The almost identical Articles 6 and 11 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" and the Commission's "Proposal for a Council Regulation on Community trade marks", respectively, merely amended paragraph 2 of Articles 14 of the "Draft Council Regulation on the Community trade mark" of July 1978 and 5 of the "Draft Council Directive to approximate the laws of the Member States relating to trade marks" of July 1979 and widened the circumstances in which paragraph 1 of those Articles was not applicable. According to the aforementioned Articles:

1. The trade mark shall not entitle the proprietor thereof to prohibit its use in relating to goods which *have been put on the market* under that trade mark by the proprietor or with his consent.
2. Paragraph (1) shall not apply:

   (a) where there are legitimate grounds for opposing importation *into the Community* of goods put on the market outside it;
   (b) where the condition of the goods is changed or impaired after they have been put on the market;
   (c) where the goods are repackaged by a third party (emphasis added).

of rights in the aforementioned preparatory acts was presented as a result of the finding that the use of the trademark borne by goods put on the market by the trademark proprietor or with his consent by a third party is not possible, in principle, to affect adversely the origin function of the trademark.[184] Moreover, as stated in the Commissions' Explanatory Memorandum to the Regulation on Community trademarks,[185] the establishment of the principle of international exhaustion was necessary in order to avoid any partitioning of the global market and depriving the Member States' consumers of the possibility of acquiring products at lower prices.

However, the Economic and Social Committee of the European Communities (ESC) (now the European Economic and Social Committee) objected to the possibility of international exhaustion of rights being incorporated into the Community legislation on trademarks. In one of its Opinion, it argued that it should be recognised that there exist "legitimate grounds" for non-application of the principle of international exhaustion of (national and Community) trademark rights "(a) where the marked goods to be imported [in parallel] into the Community differ in quality from goods which are marketed in the Community under the same mark and (b) where the non-member country [the country from which the goods are exported in parallel] bans the import of comparable goods from the Community".[186] The German Association for the Protection of Industrial Property also

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[184] According to recital 8 in the Preamble to the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" and recital 9 in the Preamble to the Commission's "Proposal for a Council Regulation on Community trade marks":

> the function of indicating origin which is fulfilled by a trade mark implies that it is not, in principle, possible to prohibit its use by a third party in respect of goods marketed *within or outside the Community* under the trade mark by the proprietor or with his consent (emphasis added).

[185] See Bulletin of the European Communities, Supplement 5/80, New Trade System for the Community, Proposed Directive and Regulation, pp. 59–60 (Office for Official Publications of the European Communities 1981) (as noted in page 14 of the Bulletin, the commentary made in the Explanatory Memorandum to the Regulation on Community trademarks in relation to Article 11 of the Commission's "Proposal for a Council Regulation on Community trade marks" applied also to Article 6 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks"): "Moreover, the application of the principle of the exhaustion of the right to the trade-mark ties in with the attaining of two tasks which are entrusted to the Community by the Treaty: the removal, as between Member States, of obstacles to freedom of movement for goods and services, and the institution of a system ensuring that competition in the common market is not distorted. The latter obligation could clearly not be observed if the Commission were to propose rules laying down the principle that the proprietor of a Community trade-mark had the right to use it in order to compartmentalize the world market. There is a real danger that undertakings whose principal place of business could well be in a non-member country would prevent their products from being imported into the Community at more favourable prices, which would be detrimental to Community consumers".

[186] See OJ C 310/22, 24 of 30.11.1981, published in "Stellungnahme des Wirtschafts- und Sozialausschusses der Europäischen Gemeinschaften zum Vorschlag für eine erste Richtlinie des Rates zur Angleichung des Markenrechts in den Mitgliedstaaten und zum Vorschlag für

put forward arguments against a regime of international exhaustion in relation to Community trademark rights.[187]

However, during consultation by European Parliament on the provisions of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" and the Commission's "Proposal for a Council Regulation on Community trade marks", the principle of international exhaustion of trademark rights was abandoned definitely in favour of the principle of Community-wide exhaustion of those rights. More specifically, during that consultation, the rapporteur of the Commission, although he acknowledged that the principle of international exhaustion of trademark rights is the "right principle", pointed out that, for the Community to recognise that principle, it is required that that principle be recognised by important trading partners of the Community, such as Japan, the USA, and the Scandinavian countries.[188] In addition, according to Commissioner *Narjes*:

> The Commission cannot oppose the arguments that are put forward against the establishment of the principle of "international exhaustion" in the Proposals for a Directive and a Regulation. *A number of reasons, particularly trade mark law considerations* as well as the fact that international exhaustion is applicable in some third countries, *advocate maintaining that principle*.
>
> *After close examination, we concluded that the emphasis should be on the possible negative trade-related effects of that principle*. These effects include the fact that the Commission's Proposal discriminates against undertakings operating in the Community and in favour of undertakings operating in third countries which do not recognize international exhaustion. In this way, the Community would make unilateral concessions towards those countries (...).
>
> For these reasons, the Commission has formed the opinion that it should refrain from introducing "international exhaustion", when the same view is expressed by the White House. Nevertheless, I believe that, for the purpose of promoting international trade, the Community must be authorized at the appropriate time to enter into bilateral or multilateral Agreements with major trading partners, in which the principle of international exhaustion will be introduced by the Parties. For this purpose, the Commission is going to refer to this possibility using the appropriate wording in the recitals[189] (emphasis added).

eine Verordnung über die Gemeinschaftsmarke (Dok. KOM [80] 635 endg.)", *GRUR Int*. 1981, 764, 765 (in relation to the proposed Directive) and 766 (in relation to the proposed Regulation).

[187] See Mitteilungen aus der Deutschen Vereinigung für gewerblichen Rechtsschutz und Urheberrecht, Eingabe betr. die Vereinheitlichung des Markenrechts in der Europäischen Gemeinschaft, *GRUR* 1982, 86, 91. According to the German Association for the protection of industrial property, establishing international exhaustion of Community trademark rights would result in harming the reputation of Community trademarks and misleading consumers regarding the characteristics of products bearing Community trademarks.

[188] ABl. der EG, Verhandlungen des Europäischen Parlamentes, 12.10.1983, Nr. 1-304/114, Berichterstatter Turner. A Member of the European Parliament argued for international exhaustion of trademark rights. See ABl. der EG, Verhandlungen des Europäischen Parlamentes, 12.10.1983, Nr. 1-304/115, Abgeordnete Sieglerschmidt.

[189] ABl. der EG, Verhandlungen des Europäischen Parlamentes, 12.10.1983, Nr. 1-304/112, 120–121, Kommissionsmitglied Narjes. The text has been translated from German by the author.

The above statement shows that the non-establishment of international exhaustion of rights in the Community trademark law was based not on reasons concerning the legally protected under Community law functions of trademarks but on trade-related considerations. In particular, according to the Commission, the recognition of Community-wide exhaustion instead of international exhaustion of trademark rights was deemed necessary in order to avoid discrimination against undertakings operating in the Community and in favour of undertakings operating in major trading partners of the Community, which also did not recognise the principle of international exhaustion of rights. However, the principle of international exhaustion of trademark rights was not completely abandoned, at least in theory. This is because the Commission acknowledged expressly the possibility of the Community introducing that principle in relation to goods put on the market in major trading partners of it by concluding International Agreements with the latter.

After consultation by European Parliament had been ended and Articles 11 of the Commission's "Proposal for a Council Regulation on Community trade marks" and 6 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" had been amended in order to enshrine a doctrine of Community-wide (and not international) exhaustion of Community and national, respectively, trademark rights,[190] the Commission published, in July 1984, an "Amended Proposal for a Council Regulation on the Community trade mark".[191] Article 11 of the "Amended Proposal for a Council Regulation on the Community trade mark" was as follows:

> [Limits of the rights conferred by a Community trade mark]
>
> 1. A Community trade mark does not entitle the proprietor to prohibit its use in relation to goods which have been put on the market *in the Community* under that trade mark by the proprietor or with his consent.
> 2. Paragraph 1 shall not apply where the condition of the goods is changed or impaired after they have been put on the market (emphasis added).[192]

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[190] ABl. der EG, Verhandlungen des Europäischen Parlamentes, 14.11.1983, C 307/44, 51 (in relation to Article 11 of the Commission's "Proposal for a Council Regulation on Community trade marks") & 63 (in relation to Article 6 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks"). It should be stressed that, during consultation by European Parliament on the provisions of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks" and the Commission's "Proposal for a Council Regulation on Community trade marks", the ESC also expressed in favour of a Community-wide regime of exhaustion of trademark rights. According to the ESC, "an approach based solely on principles of trademark law would lead to undesirable commercial consequences. In so far as third countries do not acknowledge the principle of international exhaustion, the Commission proposal would result in discrimination of the industry in the Community". See Doc. 1-611/83, of 1st of August 1983, 63.

[191] OJ C 230/1 of 31.08.1984.

[192] It is interesting to mention that the recital concerning the rule of exhaustion of rights in the Preamble to the Commission's "Proposal for a Council Regulation on Community trade marks" was also amended. According to recital 9 in the Preamble to the "Amended Proposal for a Council Regulation on the Community trade mark": "It follows from the principle of free flow of goods that

Also, the Commission's "Explanatory Memorandum" to the "Amended Proposal for a Council Regulation on the Community trade mark"[193] mentions the following with regard to Article 11 of the said Proposal: "Paragraphs 1 and 2 of this article correspond to Parliament's Opinion. On the question of international exhaustion of the rights conferred by a Community trade mark, the Commission has formed the opinion that the Community legislator should refrain from introducing this principle and make do with the rule of Community-wide exhaustion. *The Community must, however, be empowered to conclude, at some future time with important trading partners, bilateral or multilateral agreements whereby international exhaustion is introduced by the contracting parties. The restriction to Community-wide exhaustion, however, does not prevent national courts from extending this principle in cases of a special nature, in particular where, even in the absence of a formal agreement, reciprocity is guaranteed*"[194] (emphasis added).

One year after the publication of the "Amended Proposal for a Council Regulation on the Community trade mark", the Commission published the "Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks".[195] The wording of Article 6 of the said Proposal was similar to the one of Article 11 of the "Amended Proposal for a Council Regulation on the Community trade mark":

1. 1. The trade-mark shall not entitle the proprietor thereof to prohibit its use in relation to goods which have been put on the market *in the Community* under that trademark by the proprietor or with his consent.
2. Paragraph 1 shall not apply where the condition of the goods is changed or impaired after they have been put on the market (emphasis added).[196]

In addition, the Commission's Explanatory Memorandum to the "Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks"[197] adopted the views formulated by the Commission

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the proprietor of a Community trade mark must not be entitled to prohibit its use by a third party in relation to goods which have been put into circulation *in the Community*, under the trade mark, by him or with his consent" (emphasis added).

[193] Com (84) 470 final, 31 July 1984.

[194] Com (84) 470 final, 31 July 1984, vi–vii.

[195] OJ C 351/4 of 31.12.1985.

[196] Following the amendment of the wording of Article 6 of the "Proposal for a First Council Directive on the approximation of law of Member States on trade marks", the recital of the Preamble of that Proposal referring to the rule of exhaustion of the right was also amended. According to the eighth recital of the said Preamble:

> as it results from the principle of free movement of goods, the proprietor of a Community registered mark cannot prohibit to third parties the use of the said mark to goods that were put on free movement *in the Community*, under this mark, by him or with his consent... (emphasis added).

[197] COM (85) 793 final, 17.12.1985.

in relation to Article 11 of the “Amended Proposal for a Council Regulation on the Community trade mark”:

> In Line with the proposals made by the Economic and Social Committee and Parliament, the Commission has decided *not to introduce international exhaustion* (cf. explanatory comments on Article 11 of the proposal for a Regulation [on the Community trade mark])[198] (emphasis added).

The amendment of Article 11 of the “Proposal for a Council Regulation on the Community trade mark” and Article 6 of the “Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks” was later approved by the Council, which introduced a provision establishing a Community-wide regime of Community and national trademark rights in Regulation (EC) 40/94 and Directive 89/104/EEC, respectively.[199]

From the preparatory work for Directive 2008/95/EC and Regulation (EC) 40/94, it follows that the Commission consciously limited the scope of exhaustion of national trademark rights to trademarked goods that have been put on the market in the Community.[200] The previously mentioned limitation did not, however, take the form of an expressed prohibition of the principle of international exhaustion of national trademark rights but of the Commission’s withdrawal of imposing on the Member States an obligation to adopt that principle.[201] This is why the preparatory work for Directive 2008/95/EC and Regulation (EC) 40/94 does not provide an irrefutable argument in favour of the prohibition of the principle of international exhaustion of national trademark rights, i.e. in favour of regarding the provision of Article 7 (1) of Directive 2008/95/EC as exclusive.[202] Nevertheless, such a consideration is advocated by the Commission’s Explanatory Memoranda to Articles 11 of “Amended Proposal for a Council Regulation on the Community trade mark” (1984) and Article 6 of the “Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks” (1985). More precisely, based on those Memoranda, the Member States may recognise the principle of international exhaustion of (national and Community) trademark rights

[198] COM (85) 793 final, 17.12.1985, v.

[199] See *supra* Sect. 8.1.2.

[200] So also Carboni (1997), p. 201; Gaster (1997), pp. 53–54; Harte-Bavendamm and Scheller (1994), pp. 574–575; Klaka (1994a), p. 325; Kroher (1996), p. 255; Litpher (1997), pp. 195–198; Mulch (2001), p. 56; Rasmussen (1995), p. 176; Sack (1998), pp. 564–565; Sack (1994), p. 899; Wichard (1997), p. 712.

[201] So also Ebenroth (1992), p. 29, Nr. 25; Freytag (2001), p. 192; Kairies (2001), pp. 64–65; Löwenheim (1996), p. 314.

[202] On the contrary, a large number of authors conclude that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] prohibits international exhaustion of rights from the preparatory work for Directive 89/104/EEC:

Carboni (1997), p. 201; Fezer (1998), p. 10; Gaster (2000), pp. 578–579; Gaster (1997), pp. 53–54; Gloy (1990), p. 265; Harte-Bavendamm and Scheller (1994), pp. 574–575; Klaka (1994a), p. 325; Kroher (1996), p. 255; Kur (1997), p. 245; Litpher (1997), p. 198; Mulch (2001), pp. 55–56; Rasmussen (1995), pp. 175–176; Wichard (1997), p. 712.

in relation to goods put on the market in a non-Member State in cases (a) where the non-Member State has concluded an International Agreement with the Community (now European Union), on the basis of which the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 have been extended to trademarked goods put on the market in the non-Member State and (b) where the national courts deem that special circumstances allow for the legality of parallel imports of trademarked goods from the non-Member State, such as the fact that the non-Member State recognises the legality of parallel imports from the Member States of the Community (now the European Union) (adoption of the principle of international exhaustion of trademark rights on a reciprocity basis).[203] Indeed, an argument may be deduced from those Memoranda that the Member States can acknowledge a regime of international exhaustion of national and Community trademark rights only in the previously mentioned cases.

9.4.5.5 Prohibition of International Exhaustion of Trademark Rights as an Expression of a Change of the Purpose of Trademark Law?

It has been argued that considering the provision of Article 7 (1) of Directive 2008/95/EC to be an exclusive provision is imposed by the new concept of the legally protected functions of trademarks, which is expressed in Directive 89/104/EEC (now in Directive 2008/95/EC).[204] In particular, it has been noted that, after the adoption of Directive 89/104/EEC, the origin function of trademarks, which, as stated in a previous chapter, provided the basis for German case law to accept the principle of international exhaustion of trademark rights,[205] is no longer the only legally protected function of trademarks. This is because after Directive 89/104/EEC has entered into force, the guarantee and advertising functions of trademarks are also acknowledged as legally protected functions of trademarks. According to one view, indeed, the recognition of the advertising function as a legally protected function of trademarks enables the proprietor of a trademark to segment the world market, given that the reputation of a trademark is not the same between the Community (now EU) market and markets of countries outside the European Union.[206]

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[203] Cf. Carboni (1997), p. 201; Harte-Bavendamm and Scheller (1994), p. 575; Rasmussen (1995), p. 176. About these two possibilities of acknowledging the principle of international exhaustion of national and Community trademark rights, see *infra* Sect. 9.6.2.

[204] Harte-Bavendamm and Scheller (1994), p. 576; Fezer (1998), p. 10; Klaka (1994a), p. 326.

[205] See *supra* Sect. 8.1.1.

[206] See Nordemann (1995), p. 317, according to whom the prohibition of international exhaustion of trademark rights under Directive 89/104/EEC and MarkenG is based on the fact that the advertising function of trademarks is protected independently from the trademarks' origin function in the light of those legal instruments.

In the light of the foregoing considerations, a question arises as to whether the provisions of Directive 2008/95/EC do reflect a change of the purpose of trademark law of such an extent that a prohibition of international exhaustion of rights under Directive 2008/95/EC is justified. To answer that question, it is necessary to examine the provisions of Directive 2008/95/EC relating to trademark functions. It would also be useful to make a reference to the case law developed by the ECJ on the legality of parallel imports of pharmaceuticals and luxury products after Directive 89/104/EEC has been issued.

In particular, according to recital 11 in the Preamble to Directive 2008/95/EC, the function of the protection afforded by a trademark is "*in particular* to guarantee the trade mark as an indication of origin" (emphasis added). The previously mentioned recital makes it clear that, in the Community legislator's view, the legal protection of a national trademark aims, primarily, at safeguarding the primary function of the mark, i.e. its function to identify the origin of a product or service from a specific undertaking and to distinguish a product or a service from the products or services of another undertaking.[207] The position expressed in recital 11 in the Preamble to Directive 2008/95/EC reflects, in essence, the doctrine of specific subject matter of the exclusive right flowing from the trademark, which, as stated in a previous chapter, is the rationale of the principle of Community-wide exhaustion of trademark rights.[208] In fact, in the light of both that recital and the aforesaid doctrine, the conflict between the territorial protection of trademark rights and the principle of free movement of goods and, thus, the issue of the legality of parallel imports of trademarked goods must be settled primarily based on the protection of the origin function of trademarks.

Both recital 11 of the Preamble to Directive 2008/95/EC and the doctrine of specific subject matter of the exclusive right flowing from the trademark argue, therefore, for the legality, in principle, of parallel trade in trademarked goods between the EU Member States or, in other words, for the exclusion of national for the sake of EU-wide exhaustion of trademark rights. However, the question why the origin function of trademarks should not serve as a basis for the solution of the problem of the legality of parallel imports of trademarked goods that have been put on the market in non-EEA Member States is still unanswered. As it has been rightly stated, there is no reason justifying a different conception of the functions of trademarks borne by goods that are put on the market outside the Community (now the European Union).[209] Indeed, there is no element in favour of the claim that recital 11 in the Preamble to Directive 2008/95/EC refers only to trademarks borne by goods that are put on the market in the EU (or in the EEA).

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[207] Cf. Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR 1139, para. 7.

[208] For the doctrine of specific subject matter of the exclusive right flowing from the trademark, see *supra* Sect. 7.3.3.

[209] So also Beier (1982), p. 45; Litpher (1997), p. 209.

However, a question arises as to whether a prohibition of international exhaustion of trademark rights may be supported by other provisions of Directive 2008/95/EC or by formulations pertaining to the specific subject matter of the exclusive right flowing from the trademark included in decisions issued by the Court after the adoption of Directive 89/104/EEC.

Regarding Directive 2008/95/EC, it is, first of all, indisputable that, although it mostly aims at protecting the origin function of trademarks, it nevertheless includes provisions introducing absolute protection for the advertising function of national and Community trademarks with reputation. Specifically, pursuant to the provisions of Article 4 (2) and (4) (a) and Article 5 (2) of Directive 2008/95/EC, the proprietor of a national or a Community trademark that has a reputation can invoke the exclusive protection of his right in order to prohibit the use of an identical or similar trademark by a third party even if such a use is related to goods that are not similar to or identical with the goods bearing the mark of the proprietor, namely even if there is no risk of the origin function of the mark of the proprietor being impaired. On the basis of those provisions, it might be argued that the proprietor of a national or a Community trademark that has a reputation may oppose parallel imports of goods bearing the trademark from non-EEA Member States. Here, however, it must be stressed that the absolute protection of the advertising function of trademarks that have a reputation, i.e. the protection of the advertising function of trademarks that have a reputation independently from whether a risk of the origin function of such a trademark being impaired exists, is binding for the Member States only in relation to Community trademarks that have a reputation. Only Article 4 (3) of Directive 2008/95/EC introduces a provision that must have been transposed into the national laws of the Member States. On the contrary, the transposition of Articles 4 (4) (a) and 5 (2) of Directive 2008/95/EC, which provide for absolute protection for the adverting function of national trademarks that have a reputation, has been left to the discretion of each Member State. Directive 2008/95/EC does not oblige the Member States to provide for absolute protection for the advertising function of national marks that have a reputation. Thus, a prohibition of parallel imports of goods covered by a national trademark that has a reputation from non-EEA Member States on the basis of Articles 4 (4) (a) and 5 (2) of Directive 2008/95/EC would be possible only in Member States that have transposed those provisions into their national legislation. Besides, those provisions could not, of course, be invoked to prohibit parallel imports of goods bearing a trademark that does not have a reputation from non-EEA Member States.

The fact that the protection of the advertising and guarantee functions of national trademarks that do not have a reputation cannot justify a total prohibition of parallel imports of trademarked goods from non-EEA Member States is also confirmed by decisions issued by the ECJ after Directive 89/104/EEC has been adopted.

More specifically, as analysed in Chap. 7, it follows from the Court's case law pertaining to the legality of parallel imports of pharmaceutical and luxury products that the proprietor of a national trademark is not entitled to oppose parallel imports of goods bearing the mark by reference to the reputation that his trademark enjoys in the importing Member State unless it is shown that the use of the trademark by the parallel importer or the independent reseller entails damage or a risk of damage or an unfair exploitation of the reputation or the distinctive character of the trademark. In other words, the Court has acknowledged, in fact, the protection of the advertising function of trademarks regardless of whether there is a risk of confusion as to the origin of the goods bearing the trademark. However, the protection of the advertising function of trademarks can justify a parallel import prohibition only in one of the above-mentioned cases.[210]

Moreover, according to the Court's case law on the legality of parallel imports of pharmaceuticals, the protection of the guarantee function of trademarks is acceptable only in the context of safeguarding trademarks' origin function, namely the guarantee function of a trademark does not give the trademark proprietor more rights than the origin function does. The guarantee function of a trademark may justify the prohibition of a parallel importation only where such a prohibition is necessary for the protection of the origin function of the trademark too. In contrast, according to the Court's case law, a trademark proprietor cannot prohibit a parallel importation by claiming that such an importation would entail a danger of misleading consumers in relation to the quality or other characteristics of the goods bearing the trademark.[211]

On the basis of the foregoing, a consideration of Article 7 (1) of Directive 2008/95/EC as an exclusive provision could only be justified in relation to a specific category of trademarks, i.e. the national trademarks that have a reputation, and only in relation to the EU Member States that have transposed Articles 4 (4) (a) and 5 (2) of Directive 2008/95/EC into their national laws. On the other hand, with regard to national trademarks that do not have a reputation, such a consideration is not consistent with the concept of the legally protected functions of trademarks reflected in Directive 2008/95/EC and in the Court's decisions issued after Directive 89/104/EEC has been adopted.

9.4.5.6 Uniform Regulation of Exhaustion of Trademark Rights in Directive 2008/95/EC and Regulation (EC) 207/2009?

It has been observed that a consideration of Article 7 (1) of Directive 2008/95/EC as an exclusive provision is necessary, *inter alia*, in order to ensure a uniform interpretation of Article 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of

[210] These assessments are based on the judgments in *MPA Pharma v. Rhône-Poulenc Pharma, Eurim-Pharm Arzneimittel v. Beiersdorf and others, Bristol-Myers Squibb and others v. Paranova, Loendersloot v. Ballantine & Son and others, Parfums Christian Dior v. Evora, BMW, Copad* and *Portakabin*. See in detail *supra* section "Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark".

[211] These assessments are based on the judgments in *MPA Pharma v. Rhône-Poulenc Pharma*, *Eurim-Pharm Arzneimittel v. Beiersdorf and others*, *Bristol-Myers Squibb and others v. Paranova* and *IHT Internationale Heiztechnik v. Ideal-Standard*. See in detail *supra* section "Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark".

Regulation (EC) 207/2009] and Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].[212] This view is obviously based on the common travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94, which shows, indeed, that the Commission refrained from the establishment of a doctrine of international exhaustion not only as regards national trademark rights but also as regards Community trademarks.[213]

Nevertheless, in this author's view, a sufficient argument in favour of a uniform interpretation of Regulation (EC) 207/2009 and Directive 2008/95/EC regarding the issue of exhaustion of rights cannot be deduced from the preparatory work for Directive 89/104/EEC and Regulation (EC) 40/94. Also, in general, there is no apparent reason for a uniform interpretation of Articles 13 (1) of Regulation (EC) 207/2009 and 7 (1) of Directive 2008/95/EC. Such a reason would only exist if there was a prospect of Community trademarks replacing national trademarks at some future time, i.e. if there was a prospect of the law on Community trademarks replacing national trademark laws.[214] Given that there is no such prospect and it is not likely that there will be such prospect in the near future for various reasons,[215] the fact that Regulation (EC) 207/2009 prohibits the principle of international exhaustion of rights does not seem to constitute a sufficient argument for accepting that Directive 2008/95/EC prohibits the same principle.[216] On the contrary, an argument in favour of the legality of international exhaustion of rights under Directive 2008/95/EC can be deduced from the fact that Directive 2008/95/EC (measure of partial harmonisation) and Regulation (EC) 2008/95 (measure of full harmonisation) are of a different legal nature.[217]

9.4.5.7 Uniform Regulation of Exhaustion with Respect to All the Intellectual Property Rights?

According to another view, to accept that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] prohibits international exhaustion of rights is necessary for ensuring that the aforesaid provision is interpreted in conformity with the EU provisions on exhaustion of other national intellectual property rights, which are not disputed that apply only to goods put on the market within the EU/EEA, to prohibit parallel imports from non-EEA Member States by

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[212] Gloy (1990), p. 265; Harte-Bavendamm and Scheller (1994), p. 574; Rasmussen (1995), p. 175; Sack (1994), p. 899; Sack (1998), pp. 564–565.

[213] See *supra* Sect. 9.4.5.4.

[214] So also Mulch (2001), p. 61.

[215] For example, high cost, linguistic differences between the Member States, a complex and time-consuming process for obtaining the Community mark.

[216] So also Mulch (2001), pp. 61–62.

[217] See Albert and Heath (1998), p. 645, with regard to the provisions of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 13 (1) of Regulation (EC) 40/94/EC [now Article 13 (1) of Regulation (EC) 207/2009].

invoking any intellectual property right.[218] According to that view, all the national intellectual property rights should be subject to the same exhaustion regime.

In this author's opinion, the foregoing view ignores, on one hand, the existing differences between the exclusive right flowing from the trademark and the other intellectual property rights in terms of their essential function and duration of protection and, on the other hand, the impact of those differences on the issue of exhaustion of those rights.

In particular, the foregoing view does not seem to be favoured by a comparison of the semantic content of the essential function of the trademark and the essential function of the other intellectual property rights used mainly for excluding parallel trade, i.e. patent rights and copyright, as the essential function of each of the latter rights has been defined in the case law of the ECJ and the European General Court [formerly the Court of First Instance (CFI)[219]].

Indeed, according to the Court, the essential function of patent rights is "to reward the creative effort of the inventor".[220] Moreover, according to the Court of First Instance (now the European General Court), the essential function of copyright is "to protect the moral rights in the work and ensure a reward for the creative effort".[221] Therefore, it is observed that the semantic content of the essential function of the other intellectual property rights used mainly for excluding parallel trade is based on the idea of "rewarding the proprietor of the right" ("Belohnungsgedanke" in German) for a specific creative or inventing effort.

On the other hand, based on the Court's case law, the essential function of a trademark is "to guarantee the identity of the origin of the marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin".[222] Therefore, the semantic content of the essential function of trademarks neither is based on an idea of rewarding trademark proprietors nor includes such an idea. This finding does mean, of course, a depreciation of the role of trademark rights

[218] Harte-Bavendamm and Scheller (1994), p. 577; Kunz-Hallstein (1998), p. 270; Wichard (1997), p. 713.

[219] See Article 19 (1) of the TEU, as amended by the Lisbon Treaty (officially entitled "the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community").

[220] Case C-15/74, *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc*, [1974] ECR 1147, para. 9.

[221] Case T-69/89, *Radio Telefis Eireann v Commission of the European Communities*, [1991] ECR II-485, para. 71; Case T-70/89, *British Broadcasting Corporation and BBC Enterprises Ltd v Commission of the European Communities*, [1991] ECR II-535, para. 58; Case T-76/89, *Independent Television Publications Ltd v Commission of the European Communities*, [1991] ECR II-575, para. 56.

[222] Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR 1139, para. 7; Case C-206/01, *Arsenal Football Club plc v Matthew Reed*, [2002] ECR I-10273, para. 48.

compared to the role of the other intellectual property rights.[223] As has been pointed out repeatedly by the ECJ, "trade mark rights are an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain".[224] Nevertheless, the previously mentioned finding does not allow for a uniform treatment of trademark rights and the other intellectual property rights, *inter alia*, within the framework of the problem of the legality of parallel imports. In fact, regarding the other intellectual property rights, precluding Member States from adopting an international exhaustion regime could be justified on the ground that rewarding the proprietors of those rights separately for the distribution of their goods in the EU market, by allowing them to control the first putting on the market of their goods in the EU market, is deemed necessary for encouraging the creative/ inventive effort of those proprietors. As for trademark rights, however, a prohibition of international exhaustion is not justified, given that the development of the essential function of a trademark does not aim to reward the proprietor of the trademark right.[225]

Besides, there is one more reason why trademark rights and the other intellectual property rights should not be treated in the same way in terms of their exhaustion. Unlike the protection of the other intellectual property rights, the protection of a trademark right can be renewed indefinitely. In particular, with regard to trademark rights, Directive 2008/95/EC does not provide for the duration of those rights. Therefore, the Member States are free to decide upon this issue on their own and, by extension, to provide that the duration of trademark rights may be renewed indefinitely.[226] On the contrary, as far as the other intellectual property rights are concerned, it is noted that, regardless of whether their duration is regulated at EU or national level, it is common place that the duration of those rights is limited and cannot be renewed indefinitely.[227]

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[223] In the early 1970s, the ECJ made such a mistake by developing the doctrine of "common origin". See *supra* Sect. 7.3.5.

[224] Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, [1990] ECR I-3711, para. 13; Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, para. 45; Case C-206/01, n. 222 above, para. 47; Case C-299/99, *Koninklijke Philips Electronics NV v Remington Consumer Products Ltd*, [2002] ECR I-5475, para. 30.

[225] Cf. also Mulch (2001), p. 100. It is worth noting that German legal literature justified the acknowledgement of international exhaustion of trademark rights and the acknowledgement of national exhaustion of the other intellectual property rights by putting forward the argument that the protection of the trademark right, contrary to the protection of the other intellectual property rights, does not aim at rewarding the proprietor of the right for an inventive or creative effort. See Beier (1996), p. 8; Löwenheim (1999), "§17", Rdnr. 35.

[226] Cf. also Article 46 of Regulation (EC) 207/2009. It is worth noting that, according to the TRIPs Agreement, the minimum duration of trademark protection is 7 years (Article 18 of the TRIPs Agreement).

[227] Thus, in relation to copyright, according to Article 1 (1) of Directive 93/98/EEC of the 29th of October 1993 "harmonizing the term of protection of copyright and certain related rights" (OJ L 290/9 of 24.11.1993), "The rights of an author of a literary or artistic work within the meaning of

The fact that trademark rights can be protected without a time limit while the duration of protection of the other intellectual property rights is subject to a time limit advocates, according to this book, against trademark rights and the other intellectual property rights being subject to the same exhaustion regime. Indeed, the restriction of the scope of exhaustion of patent rights and of the right to distribute goods protected by copyright loses its relevance after the duration of the previously mentioned rights has elapsed, given that those rights can be invoked to exclude parallel imports as long as they are valid. Nevertheless, a consideration of Article 7 (1) of Directive 2008/95/EC as a maximum standard invalidates de facto the aforementioned observation in relation to goods protected not only by a patent right or a copyright but also by a trademark right. This is because based on that consideration, the proprietor of, e.g., a patent right in a certain Member State may, even after the duration of the patent right has elapsed, keep on opposing parallel imports of goods that were protected by the patent right from non-EEA Member States by invoking the protection of the trademark borne by the goods. Therefore, if one interprets the provision of Article 7 (1) of Directive 2008/95/EC as prohibiting international exhaustion of trademark rights, this implies an indefinite closure of the EU market to parallel imports from non-EEA Member States even in relation to goods that were protected by an intellectual property right whose duration elapsed, provided that the goods bear a trademark protected in the importing Member State. However, the use of a trademark as a means of excluding parallel trade in goods that were protected by an intellectual property right whose duration elapsed is doubtful whether it can be justified in the light of the reasons that require that the duration of the protection of the other intellectual property rights be limited.[228]

In consideration of the foregoing, regarding Article 7 (1) of Directive 2008/95/EC as a provision that prohibits the Member States from accepting a regime of international exhaustion of trademark rights cannot be justified on the ground that such a consideration is necessary to ensure that Article 7 (1) of Directive 2008/95/EC is construed in a way consistent with what is applicable in relation to exhaustion of the other national intellectual property rights. On the contrary, the differences between the exclusive right flowing from the trademark and other intellectual property rights in terms of their essential function and duration of protection

Article 2 of the Berne Convention shall run for the life of the author and for 70 years after his death, irrespective of the date when the work is lawfully made available to the public". Specific provisions on the duration of copyright with respect to certain categories of works are laid down in Articles 1 (2)-5, 2, 4, 5 and 6 of Directive 93/98/EEC. Also, Article 3 of Directive 93/98/EC provides for the duration of related rights. As for design rights, Article 10 of Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 "on the legal protection of designs" (OJ L 289/28 of 28.10.1998) states: "Upon registration, a design which meets the requirements of Article 3 (2) shall be protected by a design right for one or more periods of five years from the date of filing of the application. The right holder may have the term of protection renewed for one or more periods of five years each, up to a total term of 25 years from the date of filing". Regarding patent rights and utility model rights, there are no Directives to date.

[228] So also Mulch (2001), pp. 102–103.

advocate against Article 7 (1) of Directive 2008/95/EC being regarded as a maximum standard.[229]

9.4.5.8 Articles 34 and 36 of the TFEU

As stated in Chap. 7, the development of the rule of Community-wide exhaustion of trademark rights by the ECJ mostly aimed at safeguarding the effective implementation of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) in cases where trademark rights were used to prohibit free movement of goods without such a prohibition being necessary for the protection of the specific subject matter of those rights. Therefore, the exhaustion of rights rule enshrined in the provision of Article 7 (1) of Directive 2008/95/EC aims, in the light of the Court's case law, at ensuring the useful effect (effet utile) of Articles 34 and 36 of the TFEU.

Based on the above findings, an adoption of the principle of international exhaustion of trademark rights by only some Member States would adversely affect the useful effect of Articles 34 and 36 of the TFEU even if those Articles are not related to parallel trade between third countries (outside the EEA) and the EU Member States. In particular, if that principle were adopted by only some Member States and the other ones confined themselves to recognising the exhaustion of trademark rights regime introduced by Article 7 (1) of Directive 2008/95/EC, trademarked goods put on the market outside the EEA could be imported and put on the market in parallel in certain Member States, while, in the other Member States, trademark proprietors would be entitled to oppose the parallel importation (importation and putting on the market) of such goods. Under such circumstances, the effet utile of Articles 34 and 36 of the TFEU would be undermined since parallel trade of trademarked goods put on the market in the EEA by the trademark proprietor or with his consent, i.e. intra-Union parallel trade, would also be impeded.[230] This is because, under such circumstances, trademark proprietors could, in Member States that would have recognised the exhaustion of trademark rights regime enshrined in Article 7 (1) of Directive 2008/95/EC (Union-wide exhaustion of trademark rights), oppose parallel imports of trademarked goods from other Member States where their rights would be subject to a regime of international exhaustion on the ground that, among the goods imported in parallel, there were items that had not been put on the market in the exporting Member States by the trademark proprietors or with their consent but had been imported in parallel from outside the EEA into the exporting Member States. In this case, it would be difficult to distinguish between trademarked goods that would have been put on the

[229] *Albert & Heath* (Albert and Heath 1998, p. 645) also refer to the different purposes of copyright and trademark protection in order to justify their view against a consideration of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] as an exclusive provision.

[230] Cf. Stothers (2007), p. 18.

market by trademark proprietors or with their consent in Member States that would have acknowledged a regime of international exhaustion of trademark rights and trademarked goods that would have been imported in parallel into the aforesaid Member States from non-EEA Member States. Even if such a problem were solved by the national courts of the Member States, intra-Union parallel trade would be impeded, given that even goods that would have been put on the market in the EEA by the proprietors of the trademarks borne by the goods or with their consent would be subject to legal disputes. Because of a rapid increase in the legal disputes on the legality of parallel imports of trademarked goods that would be exported from Member States that would have acknowledged an international exhaustion of trademark rights regime in the Member States that would have recognised a doctrine of Union-wide exhaustion of trademark rights, either the latter Member States would be forced to recognise a doctrine of international exhaustion of trademark rights too[231] or independent traders would be discouraged from making parallel imports into the Member States that would have recognised a doctrine of Union-wide exhaustion of trademark rights from Member States that would have recognised a doctrine of international exhaustion of trademark rights.[232] The first of the aforementioned results would be definitely in conflict with the purpose of Directive 2008/95/EC, which, just like Directive 89/104/EEC, is not intended to impose—even indirectly—an obligation on the Member States to recognise the legality of parallel imports of trademarked goods from non-EEA Member States.[233] The second of the aforementioned results would be in conflict with Articles 34 and 36 of the TFEU, since hindering intra-EU parallel trade would render the previously mentioned Articles ineffective.[234]

9.4.5.9 The EU Economic Policies

Some legal writers have argued that considering the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] as a maximum standard results in a unjustified protectionism of the European industry, given that many Member States-commercial partners of the Community (now EU) acknowledge the principle of international exhaustion of trademark rights and contravene international trade liberalisation trends, as the latter have been expressed through the establishment of the World Trade Organization (WTO).[235] It has been also

[231] Cf. Mulch (2001) at 60; Stothers (2007), p. 18.

[232] Cf. Stothers (2007), p. 18.

[233] Cf. Mulch (2001), p. 60.

[234] Cf. Stothers (2007), p. 18.

[235] Albert and Heath (1998), pp. 645–646; Albert and Heath (1996), pp. 278–279; Beier (1989), p. 615; Beier (1990), p. 160, according to whom it cannot be properly supported that the Community legislator wished to force Community Member States to abandon the principles concerning free movement of goods that they recognised prior to the adoption of the EEC Treaty. In the same spirit Mailänder (1992), p. 389.

argued that such a consideration supports a conception of a “Fortress Europe” (“Festung Europa” in German),[236] which contravenes the image of the Community (now EU) as an international model for the promotion of free trade [cf. Article 11 of the EEC Treaty (now Article 206 of the TFEU)], puts into question the reliability of the Council’s and Commission’s statements on world trade liberalisation, and comes into conflict with the findings of economic analysis on the benefits of free trade.[237]

According to this book, albeit attractive, the foregoing arguments are not irrefutable. More specifically, the claim that a prohibition of the principle of international exhaustion of trademark rights expresses an unjustified protectionism of the European industry towards the trade partners of the EU cannot be accepted, at least based on the current data. As we will see in the Part IV of this book, among the EU’s ten major trade partners, only Switzerland, Japan, and India recognise the above-mentioned principle. On the contrary, the USA, Russia, Turkey, South Korea, and Brazil acknowledge a national exhaustion of trademark rights regime, while the courts of China, which has become the second major trading partner of the European Union, have not taken a clear position on the issue of exhaustion of trademark rights. On the basis of these data, protectionism of the European industry against parallel imports from non-EEA Member States cannot be considered to be “unjustified”. With regard to the assertion that if Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] were to be regarded as an exclusive provision this would contradict international trade liberalisation trends, it is submitted that such trends have been halted after the, even if only temporary, collapse of the Doha Round negotiations on world trade liberalisation in 2008 and the global financial and economic crisis of 2008. Besides, as for the contentions that if Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] were to be regarded as an exclusive provision this would express a conception of a “Fortress Europe”, which contravenes the image of the Community (now EU) as an international model for the promotion of free trade and puts into question the reliability of the Council’s and Commission’s statements on world trade liberalisation, it is submitted that an opening up of the internal market of the European Union to third country economic operators should be done, taking into account its impact on the welfare of that market. The argument that the freedom of trade promotes socioeconomic welfare cannot be transferred to parallel trade, given that, based on the conclusions of economic analysis, the freedom of parallel trade may result in reducing socioeconomic welfare in the countries where goods are imported in parallel.[238]

[236] Regarding the term “Europe-Forteresse”, see Hilf (1991), Hufbauer and Schmitz (1991), and Molsberger and Kotios (1991).

[237] Litpher (1997), pp. 211–213, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[238] See *supra* Sect. 1.3.1.

On the other hand, there are arguments in favour of considering Article 7 (1) of Directive 2008/95/EC as an exclusive provision in order to ensure the effet utile of the provisions of the TFEU related to the EU's economic policies.

More specifically, if the Member States were to be allowed to adopt different exhaustion of trademark rights regimes under Directive 2008/95/EC, there would be a situation contrary to the EU's objective of converging the economic performances of its Member States [cf. recital 8 in the Preamble to the TEU, Article 121 (3) of the TFEU]. This is because, according to the general theory on parallel trade, unrestricted parallel imports into a specific country result in a fall in price levels in that country.[239] Consequently, if parallel imports from non-EEA Member States were to be allowed only in some Member States, there would be a widening of price dispersion for trademarked goods in the EU's internal market due to the price fall in the Member States that would have acknowledged a regime of international exhaustion of rights.[240] A widening of price dispersion between Member States would hinder the convergence of their economic performances.

Besides, if the Member States were to be allowed to follow their own policy on the issue of the legality of parallel imports from non-EEA Member States, then it would be possible for some Member States to change their policy on that issue and to go from an EU-wide to an international exhaustion of trademark rights regime or vice versa. However, such a possibility is difficult to reconcile with the EU's objective of price stability [cf. Article 3 (2) of the TEU].

Moreover, if only some Member States extended the rule provided for in Article 7 (1) of Directive 2008/95/EC to trademarked goods put on the market in non-EEA Member States, this would possibly hinder the achievement of the EU's objectives of balanced economic growth and full employment [cf. Article 3 (3) of the TEU]. In particular, according to economic analysis, the freedom of parallel trade might affect the volume of production and the level of employment in the markets where goods are imported in parallel.[241] Thus, recognition of the legality of parallel imports of trademarked goods from non-EEA Member States by some Member States might affect the volume of production and the level of employment in those Member States. As a result, if Article 7 (1) of Directive 2008/95/EC were not to be seen as an exclusive provision, this might impede the efforts for balanced economic growth and full employment in the EU's internal market.

[239] See *supra* Sect. 1.1.

[240] Cf. Mulch (2001), p. 60; Stothers (2007), p. 18.

[241] See National Economic Research Associates, Inc. (commonly referred to as "NERA") (1999), p. 39. According to *Chard & Mellor*, the freedom of parallel trade seems to have little effect on the volume of production and on the level of employment in a developed country (see Chard and Mellor 1989, p. 78).

9.4.5.10 Remarks

It follows from an interpretative approach to the provision of Article 7 (1) of Directive 2008/95/EC that the Court rightly decided that the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] prohibits international exhaustion of national trademark rights. The outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* decision was indeed necessary to ensure the useful effect of Articles 34 and 36 of the TFEU and of the provisions of the TFEU related to the EU's economic policies.

9.4.6 Compatibility of the Prohibition of International Exhaustion of Trademark Rights with EU Primary Law and GATT/WTO Law

9.4.6.1 Introduction

According to the interpretative approach to the provision of Article 7 (1) of Directive 2008/95/EC followed above, the ECJ was right to decide that the provision of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] precludes the EU Member States from acknowledging (through legislation or their courts' case law) an international exhaustion of national trademark rights regime. Nonetheless, what remains to be done is to examine whether the outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* decision is compatible with EU primary law and the International Agreements that have been signed by the European Community (now European Union) and are related to the problem of the legality of parallel imports of trademarked goods, i.e. the TRIPs Agreement and the GATT 1994.

9.4.6.2 Compatibility of the Prohibition of International Exhaustion of Trademark Rights with EU Primary Law: Does the European Union Have Exclusive Competence for the Regulation of the Issue of the Legality of Parallel Imports of Trademarked Goods?

Introduction

A consideration of the provision of Article 7 (1) of Directive 2008/95/EC as a maximum standard presupposes that the EU is exclusively competent to regulate the issue of the legality of parallel imports of trademarked goods on the basis of one or more provisions of the TFEU. This results from the provisions of Article 288 of the TFEU and Article 13 (2) of the TEU, which allow the EU institutions to adopt acts within the limits of the powers conferred on them in the TFEU and in the TEU, and in conformity with the procedures, conditions, and objectives set out in them, in conjunction with Article 5 of the TEU, which establishes the principle of subsidiary as a limit of the EU's competences.

In the Preamble to Directive 2008/95/EC, Article 95 of the EC Treaty (now Article 114 of the TFEU) is referred to as the foundation of Directive 2008/95/EC in EC (now EU) primary law. Nevertheless, given that prohibition of international exhaustion of trademark rights concerns imports from non-EU Member States, Article 133 of the EC Treaty (now Article 207 of the TFEU) is also relevant, even though it is not referred to in the Preamble to Directive 2008/95/EC.

Article 95 of the EC Treaty (Now Article 114 of the TFEU)

In the Preamble to Directive 2008/95/EC, Article 95 of the EC Treaty (now Article 114 of the TFEU) is referred to as the foundation of Directive 2008/95/EC in EC (now EU) primary law. Article 95 of the EC Treaty (now Article 114 of the TFEU) states that "the Council shall, acting in accordance with the ordinary legislative procedure [Article 251 of the EC Treaty (now Article 294 of the TFEU)] and after consulting the Economic and Social Committee, adopt measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.[242] Therefore, according to Article 114 of the TFEU, the approximation of the laws of the Member States is not an objective of the EU *per se* but a means of achieving the establishment and functioning of the internal market among the Member States.[243]

To answer the question of whether a measure adopted by the Council aims at ensuring the establishment and functioning of the internal market among the Member States, it is necessary to examine, first of all, the mandatory content of the measure in the light of the recitals in the Preamble to the legal act (Regulation or Directive) that includes the said measure.[244] The second recital of Directive 2008/95/EC states that the "The trade mark laws applicable in the Member States before the entry into force of Directive 89/104/EEC contained disparities which may have impeded the free movement of goods and freedom to provide services and may

[242] On the approximation of laws of Member States as a means of achieving the EU's goal to establish and safeguard the functioning of an internal market, cf., in relation to the EEC Treaty (now TFEU), Müller-Graff (1989).

[243] Cf. Götz (1994), p. 266, in relation to Article 100A of the EEC Treaty (now Article 114 of the TFEU).

[244] Cf. Case C-62/88, *Hellenic Republic v Council of the European Communities*, [1990] ECR I-1527, paras 13–14; Case C-45/86, *Commission of the European Communities v Council of the European Communities*, [1987] ECR 1493, para. 11; cf., also, in relation to Article 100A of the EEC Treaty (now Article 114 of the TFEU), Pipkorn and Berdenhewer (1997), "Article 100a", Rdnr. 24, with further references.

have distorted competition within the common market". Based on that recital, the provisions of Directive 2008/95/EC aim at fulfilling two essential requirements for achieving the EU's fundamental objective of the internal market, namely they aim at removing obstacles to the free movement of goods and to the free provision of services and at ensuring fair competition in the internal market. The question that needs to be answered, therefore, in order to establish an exclusive competence of the European Union for the regulation of the issue of exhaustion of trademark rights in Article 114 of the TFEU is whether fulfilling those requirements or at least one of them makes it necessary that a uniform legal treatment of parallel imports of trademarked goods from non-EEA Member States in all the EU Member States is ensured. In other words, the critical question here is whether considering the provision of Article 7 (1) of Directive 2008/95/EC as a maximum standard is imposed for reasons connected with safeguarding free movement of goods and fair competition in the internal market.

Regarding the first part of the above question, namely regarding the question of whether a prohibition of the principle of international exhaustion of trademark rights is necessary to eliminate obstacles to the free movement of goods between Member States, the answer is in the negative.[245] Articles 34–36 of the TFEU provide for intra-Union trade and, thus, not for (parallel) imports of trademarked goods from third countries (outside the European Union). An acknowledgement of that principle by only some Member States does not create new barriers to the trade among Member States by comparison with the situation prior to the adoption of Directive 89/104/EC. The proprietor of a national trademark in two Member States, one of which would have acknowledged a regime of international exhaustion of trademark rights and the other one a regime of EU-wide exhaustion of trademark rights, would have been entitled to oppose the importation of goods bearing the trademark from the first Member State to the second one if the goods had been imported in parallel to the first Member State from a non-EEA Member State. The reason is that the goods would not have been put on the market in the EEA with the consent of the trademark proprietor, namely one of the conditions for the legality of parallel imports of trademarked goods laid down in Article 7 (1) of Directive 2008/95/EC would not have been satisfied.[246] The acknowledgement of the above-mentioned principle by only some Member States would, therefore, result in import of trademarked goods prohibitions from those Member States to Member States that would have acknowledged the rule enshrined in Article 7 (1) of Directive 2008/95/EC. Nevertheless, such prohibitions may be compared to import of trademarked good prohibitions whose legality was accepted by the ECJ under Articles 30 and

[245] So also Albert and Heath (1996), p. 277; Albert and Heath (1997), pp. 26–27; Ebenroth (1992), pp. 29–30, Nr. 26· Freytag (2001), pp. 184–185; Kairies (2001), pp. 70–72; Koppensteiner (1994), p. 202; Litpher (1997), pp. 216–217, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[246] So also Albert and Heath (1996), p. 277; Albert and Heath (1997), pp. 26–27; Freytag (2001), pp. 184–185, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

36 of the EC Treaty (now Articles 34 and 36 of the TFEU) in the judgments in *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*.[247] Both in the case of those prohibitions and the prohibitions on whose legality the ECJ decided in the aforesaid judgments, the imported goods have not been put on the market in the exporting Member States with the consent of the trademark proprietors in the importing Member States. In the light of these considerations, the non-uniform treatment of parallel imports of trademarked goods from non-EEA Member States among Member States does imply an emergence of barriers to intra-Union trade. However, those barriers are not new compared to those whose legality have already been acknowledged by the Court under Articles 30 and 36 of the EC Treaty (now Articles 34 and 36 of the TFEU) in the above-mentioned judgments and that cannot be eliminated by Directive 2008/95/EC.

As for the second part of the above question, namely as for the question of whether a prohibition of the principle of international exhaustion of trademark rights is necessary to ensure fair competition in the EU's internal market, the answer is also no.[248] More specifically, it might be argued that if only some Member States adopted that principle, trademark proprietors established in the markets of those Member States would be at a disadvantage compared to trademark proprietors established in the Member States that would have acknowledged the exhaustion of trademark rights regime provided for in Article 7 (1) of Directive 2008/95/EC. The reason is that trademark proprietors that would operate in Member States that would have recognised the above principle would be faced with competition caused by parallel imports of trademarked goods from non-EEA Member States.[249] Such an argument overlooks, however, the fact that recognition of the above principle by only some Member States would alter competition conditions in those Member States for all undertakings. Indeed, the proprietor of a national trademark that would operate in a Member State that would have recognised parallel imports of trademarked goods from outside the EEA as legal would be forced, because of the competition developed between that proprietor and independent traders, to lower the prices of his products. However, his competitors would also have to lower the prices of their products in order to make them more attractive to consumers. Therefore, the disadvantage that the impossibility of a trademark proprietor excluding parallel imports from outside the EEA would give him would also affect his competitors. As a result, an acknowledgment of the above principle by only some Member States would not result in a different treatment of

[247] So also Albert and Heath (1996), p. 277; Albert and Heath (1997), p. 27; Freytag (2001), p. 185, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC]. Regarding the decisions *CNL-SUCAL v. HAG* and *IHT Internationale Heiztechnik v. Ideal-Standard*, see *supra* Sect. 7.3.5.4.

[248] So also Kairies (2001), pp. 72–73; Litpher (1997), pp. 217–218, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[249] So Löwenheim (1996), p. 313; Sack (1994), p. 900, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

two competing undertakings, which would mean distortion of competition in the internal market.[250]

Finally, it might be supported that the regulation of the issue of exhaustion of trademark rights falls under the provision of Article 114 of the TFEU on the basis that the issue is ancillary or complementary to other issues regulated by Directive 2008/95/EC.[251] In other words, it might be supported that prohibition of international exhaustion of trademark rights does not fall, in principle, within the exclusive competence of the EU, but it is finally covered by the exclusive competence of the EU as an issue ancillary or complementary to other issues regulated by Directive 2008/95/EC. However, it could be rightly objected, in this author's view, to these claims that the essential issues regulated by Directive 2008/95/EC include not only the definition of the rights of a trademark proprietor but also the limitations of the right of a trademark proprietor. Therefore, given that the legal treatment of parallel imports of trademarked goods is connected with the limits of trademark protection, for a full regulation of the exhaustion of trademark right requirements by Directive 2008/95/EC, an exclusive competence of the EU for regulating the content of the right of a trademark proprietor does not suffice. What is also required, according to the principle of subsidiary (Article 5 of the TEU), is a provision of EU primary law that authorises the EU for such a regulation.[252]

Article 133 of the EC Treaty (Now Article 207 of the TFEU)

Even though Article 95 of the EC Treaty (now Article 114 of the TFEU) cannot provide a legal basis for a consideration of Article 7 (1) of Directive 2008/95/EC as an exclusive provision in EU primary law, such a consideration might be based on Article 133 of the EC Treaty (now Article 207 of the TFEU). Article 207 of the TFEU confers on the Member States an obligation to adopt a common commercial policy based on uniform principles, thus limiting the sovereign competence of the Member States to adopt their own policy on issues pertaining to their commercial relations with third countries. A prohibition of international exhaustion of rights under Directive 2008/95/EC might be justified on the ground that it constitutes a measure that forms part of a common commercial policy of the Member States based on single principles.

In order to accept that the EU has the competence to impose on its Member States the obligation not to acknowledge a doctrine of international exhaustion of trademark rights on the basis of Article 207 of the TFEU, it is necessary to examine

[250] So also Kairies (2001), p. 72; Litpher (1997), pp. 217–218, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[251] As regards the competence of the Community to regulate issues ancillary or complementary to issues falling under Article 100A of the EEC Treaty (now Article 114 of the TFEU), see Pipkorn and Berdenhewer (1997), Article 100a, Rdnr. 46.

[252] So also Freytag (2001), pp. 186–187; Kairies (2001), pp. 73–74; Litpher (1997), pp. 218–219, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

whether the regulation of the issue of the legality of parallel imports of trademarked goods may be regarded as a commercial policy measure. Regarding the concept of "commercial policy measure" within the meaning of Article 207 of the TFEU, the Council and the Commission have suggested different versions.[253] Thus, according to the Council, that concept includes "any measure the aim of which is to influence the volume or flow of trade".[254] It is obvious that, based on the Council's approach, a prohibition of the principle of international exhaustion of trademark rights is covered by Article 207 of the TFEU, given that such a prohibition influences directly the volume or flow of trade of trademarked goods between third countries and the Member States.[255] On the other hand, according to the Commission, to classify a measure as a measure of commercial policy within the meaning of Article 207 of the TFEU, the measure "must be assessed primarily by reference to its specific character as an instrument regulating international trade, having regard to the links established by the Treaty between the removal of barriers to trade between Member States and the implementation of a common commercial policy".[256] It is obvious that, even based on the Commission's approach, a prohibition of the principle of international exhaustion of trademark rights is covered by Article 207 of the TFEU, taking into account that such a prohibition relates to the competitiveness of the undertakings operating in the EU Member States in comparison to undertakings operating in third countries (outside the EU).[257]

Based on the above findings, Article 207 of the TFEU constitutes the legal foundation for an exclusive competence of the EU to regulate the issue of exhaustion of trademark rights in EU primary law. This is the case even if, by invoking Article 206 of the TFEU, it is accepted that the EU has the competence to impose only on the Member States that, prior to the adoption of Directive 89/104/EEC, adopted a national exhaustion of trademark rights regime an obligation to adopt a regime of Union-wide exhaustion of trademark rights as a measure that promotes, in the common interest, the harmonious development of world trade and the progressive abolition of restrictions on international trade. The provision of Article 206 of the TFEU, which is of a proclamatory/political nature, neither obliges the EU to apply the principle of free movement of goods to its relations with third countries nor precludes the EU from taking measures at the expense of international trade.[258] Therefore, Article 206 of the TFEU does not preclude us from considering

[253] Cf., in relation to Article 113 of the EEC Treaty (now Article 207 of the TFEU), Bourgeois (1997b), Article 113, Rdnr. 3–6, with further references.

[254] See Opinion of the Court No. C-1/78, [1979] ECR 2871, para. 39.

[255] So also Kairies (2001), pp. 74–75; Litpher (1997), p. 221, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[256] See Opinion of the Court No. C-1/78, n. 254 above, para. 38.

[257] So also Kairies (2001), p. 75; Litpher (1997), pp. 221–223, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC]. See also *supra* Sect. 9.4.5.4.

[258] In favour of considering Article 206 of the TFEU to be of a proclamatory/political nature, cf., in relation to Article 110 of the EEC Treaty (now Article 206 of the TFEU), Bourgeois (1997a), Article 110, Rdnr. 8 with further references and Case C-112/80, *Firma Anton Dürbeck v*

the provision of Article 7 (1) of Directive 2008/95/EC as a maximum standard in the light of Article 207 of the TFEU.[259]

Finally, it is pointed out that the fact that Article 133 of the EC Treaty (now Article 207 of the TFEU) is not referred to in the Preamble to Directive 2008/95/EC does not prevent Article 207 of the TFEU from being considered to be the legal foundation for an exclusive regulation of the issue of the legality of parallel imports of trademarked goods on the part of the EU in EU primary law. More specifically, according to the Court's case law, "acts of the Community institutions are in principle presumed to be lawful and accordingly produce legal effects, even if they are tainted by irregularities, until such time as they are annulled or with-drawn".[260] Moreover, "from the gravity of the consequences attaching to a finding that an act of an institution is non-existent, it is self-evident that, for reasons of legal certainty, such a finding is reserved for quite extreme situations".[261] This is the case when "acts tainted by an irregularity whose gravity is so obvious that it cannot be tolerated by the Community legal order must be treated as having no legal effect, even provisional, that is to say that they must be regarded as legally non-existent".[262] These requirements are not fulfilled in this case. On the contrary, to ensure legal certainty, it must be acknowledged that, in spite of the fact that Article 133 of the EC Treaty (now Article 207 of the TFEU) is not mentioned in the Preamble to Directive 2008/95/EC, the previously mentioned Article provides a legal basis for considering the provision of Article 7 (1) of Directive 2008/95/EC as a maximum standard in EU primary law.[263]

Hauptzollamt Frankfurt am Main-Flughafen, [1981] ECR 1095, para. 44, where it is noted that "Article 110 of the Treaty. . .cannot be interpreted as prohibiting the Community from enacting, upon pain of commiting an infringement of the Treaty, any measure liable to affect trade with non-Member countries". *Contra* Vedder (1999), Article 110, Rdnr. 1, who supports that Article 110 of the EEC Treaty (now Article 206 of the TFEU) is legally binding.

[259] So also Kairies (2001), pp. 75–76, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC]. *Contra* Albert and Heath (1996), p. 277; Albert and Heath (1997), p. 27; Freytag (2001), p. 188 in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

[260] Case C-137/92P, *Commission of the European Communities v BASF AG, Limburgse Vinyl Maatschappij NV, DSM NV, DSM Kunststoffen BV, Hüls AG, Elf Atochem SA, Société Artésienne de Vinyle SA, Wacker Chemie GmbH, Enichem SpA, Hoechst AG, Imperial Chemical Industries plc, Shell International Chemical Company Ltd and Montedison SpA*, [1994] ECR I-2555, para. 48.

[261] Case C-137/92P, n. 260 above, para. 50.

[262] Case C-137/92P, n. 260 above, para. 49.

[263] So also Gaster (1997), p. 52; Kairies (2001), p. 76, in relation to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].

Remarks

To conclude, the result of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment is in conformity with EU primary law. Article 207 of the TFEU allows for an exclusive regulation of the issue of the legality of parallel imports of trademarked goods on the part of the EU, despite the fact that that Article is not mentioned in the Preamble to Directive 2008/95/EC.

9.4.6.3 Compatibility of the Prohibition of International Exhaustion of Trademark Rights with GATT/WTO Law (TRIPs Agreement and GATT 1994)

As observed in a previous chapter of this Part, Article 7 of Directive 2008/95/EC must be interpreted, in the light of the Court's case law, to the extent possible, in conformity with the provisions of the International Agreements signed by the European Community (now European Union).[264] A prohibition of international exhaustion of trademark rights under that Article must, therefore, be compatible with the International Agreements that have been signed by the Community and are related to the legality of parallel imports of trademarked goods, i.e. two of the Agreements included in the Annexes to the WTO Agreement, namely the TRIPs Agreement and the GATT 1994.

The TRIPs Agreement does not contain rules related to the so-called regional economic unions. On the contrary, the conditions for the compatibility of regional economic unions with GATT/WTO Law are set in Article XXIV of the GATT 1994.[265]

In the light of the above-mentioned Article and, more precisely, paragraph 5 of the above-mentioned Article [XXIV (5) of the GATT 1994], it has been claimed that establishing an obligation for a Member State of a customs union or a free trade area to recognise a regime of regional exhaustion of trademark rights instead of a regime of national exhaustion of those rights is compatible with the GATT 1994.[266] This is because a transition from a regime of national exhaustion of trademark rights to a regime of regional exhaustion of those rights entails, indeed, preferential treatment for parallel imported goods originating in other Member States of the customs union or the free trade area but does not entail raising new obstacles to market access for parallel imported goods originating in third countries. On the contrary, according to the same view, establishing an obligation for a Member State of a customs union or a free trade area to recognise a regime of regional exhaustion

[264] See *supra* section "In the Light of International Agreements".

[265] It is stressed that, in spite of the specificities that render the EU a unique structure at international level, the EU is subject to Article XXIV of the GATT 1994. See Bail (1991), p. 251; Soltysinski (1996), p. 319.

[266] Cottier (1995), p. 55. So also Stucki (1997), p. 54.

of trademark rights instead of a regime of international exhaustion of those rights violates the GATT 1994.[267] The reason is that a transition from a regime of international exhaustion of trademark rights to a regime of regional exhaustion of those rights makes market access for parallel imported trademarked goods put on the market in third countries more difficult.

Based on the above positions, forcing the EU Member States that, prior to the adoption of Directive 89/104/EEC, acknowledged a doctrine of national exhaustion of trademark rights to acknowledge a regime of EU-wide exhaustion of trademark rights is in conformity with the provision of Article XXIV (5) of the GATT 1994. On the contrary, imposing on the EU Member States that, prior to the adoption of Directive 89/104/EEC, adopted a regime of international exhaustion of trademark rights an obligation to acknowledge a regime of EU-wide exhaustion of trademark rights is not in conformity with Article XXIV (5) of the GATT 1994.

Nonetheless, in accordance with the assessments made in Part II of this book, considering Article 7 (1) of Directive 2008/95/EC as a maximum standard may be deemed compatible with the GATT 1994 by analogy with Article XXIV (6) of the GATT 1994, in view of the uniform treatment of customs duties and other restrictions on trade by the GATT 1994. In particular, under the previously mentioned provision, recognising that a trademark proprietor can exclude parallel imports from non-EEA Member States may be deemed compatible with the GATT 1994 in the same way as an increase in rate of duty in a way incompatible with Article II of the GATT 1994 may be deemed compatible with the GATT 1994, provided that the procedure set forth in Article XXVIII of the GATT 1994 has been followed. Imposing on the EU Member States an obligation to adopt a regional ("EU-wide") exhaustion of trademark rights regime, which is in fact contrary to Article XXIV (5) of the GATT 1994, should, therefore, be expected to ultimately be deemed compatible with the GATT 1994, after the procedure set forth in Article XXVIII of the GATT 1994 has been opened and completed.[268]

9.4.6.4 Remarks

The provision of Article 133 of the EEC Treaty (now Article 207 of the TFEU) indicates that the European Union has, indeed, exclusive competence to regulate the issue of exhaustion of national trademark rights. Also, considering Article 7 (1) of Directive 2008/95/EC as an exclusive provision is incompatible with the provision of Article XXIV (5) of the GATT 1994, but such a consideration should be expected to ultimately be deemed compatible with the GATT 1994, by analogy with Article XXIV (6) of the GATT 1994, after the procedure set forth in Article XXVIII of the GATT 1994 has been opened and completed. The result of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* decision is, therefore, compatible

[267] Cottier (1995), p. 55. So also Stucki (1997), p. 54.

[268] So also Freytag (2001), p. 251.

with higher-ranking sources of law, in particular with EU primary law and GATT/WTO Law.

9.5 Putting on the Market in a Member State of the EEA by the Trademark Proprietor or with His Consent

For affirming the application of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC, the trademarked good must have been put on the market in the EEA either by the mark proprietor or with his consent.

9.5.1 Putting on the Market in a Member State of the EEA by the Trademark Proprietor

If a trademark proprietor puts a good bearing the trademark on the market in an EEA Member State, this expresses, in the clearest way possible, that the trademark proprietor wished the origin function of the trademark to be developed and him to realise the economic value of the trademark with regard to that good.[269]

Even though there is no doubt that the exhaustion principle applies where a mark proprietor himself puts on the market a good bearing the mark (a trademarked item of a product),[270] a question arises as to whether a sale (either under reservation of title or not) of a trademarked good by the trademark proprietor to an undertaking belonging to the same group or to an undertaking that is contractually obliged to resell the good is also to be considered as a putting on the market of the good by the trademark proprietor. In other words, a question arises as to whether, for a trademarked good to be put on the market by the trademark proprietor, it does suffice that the proprietor sell the good to any undertaking that has its own legal personality, even if the latter is linked economically or legally to that proprietor.

That question was partially answered by the ECJ through the decision *Peak Holding*, which was examined in a previous section of this chapter.[271] More specifically, in that decision, it was acknowledged that a trademark proprietor puts goods bearing the trademark on the market even when he sells the goods to

[269] It is clarified that, when it comes to companies, it is considered that the trademark owner in the exporting country coincides with the trademark owner in the importing country also in cases in which either the company-trademark owner in the importing country has established a business division in the exporting country, or vice versa, or the two trademark owners are parts of a “single international business enterprise”. For the relevant provisions of US law, see *infra* Sect. 13.1.3.5.

[270] See *supra* Sect. 9.2.

[271] See *supra* Sect. 9.3.

an undertaking established in the EEA that has undertaken a contractual obligation to resell the goods outside the EEA.[272]

The above position, which totally removes an opposite view expressed previously in Germany,[273] has been rightly criticised for being excessively strict as regards trademark proprietors or, at least, "non-practical".[274] The reason is that it obliges trademark proprietors to sell their goods directly to authorised distributors established in non-EEA Member States in order to avoid their rights being exhausted, even if the goods are not intended to be put on the market within the EEA (due to their quality standards or other characteristics)[275] or even if the cost of exporting directly the goods to non-EEA Member States is too high for trademark proprietors.[276] In other words, in the light of the above position, in order for a trademark proprietor to retain the right to prohibit parallel imports of goods bearing the trademark to EU Member States, he must transfer the right to dispose of the goods to a person/undertaking established outside the EEA. On the contrary, if the latter right is transferred to a person/undertaking established in the EEA, the rights conferred by the trademark are exhausted even if that person/undertaking is contractually obliged to put the goods on the market outside the EEA.

Despite the fact that the above position is indeed quite strict as regards trademark proprietors, its adoption was imperative for practical reasons connected with safeguarding the effet utile of Articles 34 and 36 of the TFEU. Indeed, if it were to be accepted that there is no exhaustion of rights in relation to trademarked goods that have been sold by the trademark proprietor to an exclusive distributor that is obliged to resell the goods outside the EEA, then it would be necessary to take into account the possibility that goods bearing the same trademark have been sold to that undertaking without restriction with regard to the place where they can further be commercialised. In this case, a question would arise as to how one could distinguish the goods that would have been contractually meant for export to a non-EEA Member State and, nevertheless, would have been put on the market within the EEA without the consent of the trademark proprietor[277] from the goods that would have been sold by the trademark proprietor without restriction regarding the place where they can further be commercialised. That question would arise precisely because, according to the ECJ's case law, the Member States are not allowed to acknowledge the legality of parallel imports of trademarked goods from non-EEA Member States. Even if the national courts of the Member States answered that

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[272] Case C-16/03, n. 27 above, paras 50–56.

[273] See Fezer (1999), p. 105. According to *Fezer*, the rights conferred by a trademark are not exhausted in relation to a good if the good is sold to a person who is obliged to resell it. Cf., also, Metzger (2001), pp. 212–213, in relation to the exhaustion of the right to distribute copyrighted goods.

[274] Clarembeaux and Van Innis (2005), N65–N66; Grassie (2006), p. 476; Stothers (2007), p. 47.

[275] Cf. Mastromanolis (2006), p. 729.

[276] Stothers (2007), p. 47.

[277] For the concept of "consent", see *infra* Sect. 9.5.2.

question, an exception of trademarked goods that would have been sold to a distributor established in an EEA Member State on condition that they would be resold outside the EEA from the scope of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC would result in inhibiting intra-Union parallel trade, i.e. rendering Articles 34 and 36 of the TFEU ineffective, even in relation to the goods that would have been sold without restriction regarding the place where they could further be commercialised. This is because such an exemption would imply the creation of two, albeit indirect, barriers to intra-Union parallel trade. In particular, firstly, such an exemption would mean that the trademark proprietor could oppose further commercialisation of the goods that would have been sold by him without restriction regarding the place where they could further be traded until it would be proven in court in an EU Member State that the goods had been sold by the trademark proprietor indeed without such a restriction; secondly, it would charge the purchasers of the same goods with the burden of proving that the goods had not been sold by the trademark proprietor on condition that they could be resold only outside the EEA, which is quite difficult in practical terms.[278]

Regarding the question of whether the sale of a trademarked good by the trademark proprietor to an undertaking that is economically linked to the proprietor, namely it belongs to the same group, constitutes a putting on the market of the good by that proprietor, the positions expressed in the analysis of the concept of "putting on the market" are repeated. In particular, as noted in the relevant section, it is true that one cannot foresee in complete safety what the Court would have decided in *Peak Holding* if the company to which the trademark proprietor had sold goods bearing the trademark belonged to the same group as the trademark proprietor. However, as has been rightly pointed out, an affirmative answer to such a question is not supported by the observations, firstly, that the sale of a trademarked good to an undertaking belonging to the same group as the trademark proprietor occurs in the distribution chain at a level higher than the one at which a trademarked good is offered for sale to a distributor authorised by the trademark proprietor and, secondly, that offering a trademarked good for sale does not constitute a putting on the market of the good.[279]

Finally, it is pointed out that a "putting on the market" of a trademarked good by the trademark proprietor is also the sale of the good by a commercial agent of the trademark proprietor, given that a commercial agent acts in the name of and for the account of the principal.[280] If a trademarked good is put on the market by a commercial dealer of the trademark proprietor in breach of the contract between the trademark proprietor and the commercial dealer, the rights conferred by the trademark borne by the goods are, normally, exhausted, but the trademark proprietor may claim compensation for damage for infringement of that contract.

[278] For the foregoing considerations, cf. also Enchelmaier (2007), pp. 459–461.

[279] Stothers (2007), pp. 47–48.

[280] For the commercial agency contract, see Babetas (2003), pp. 12–14; Mastrokostas (2005), pp. 17–22.

9.5.2 *Putting on the Market in a Member State of the EEA with the Consent of the Trademark Proprietor*

9.5.2.1 Introduction

According to Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, the rights conferred by the trademark borne by a good are exhausted not only in the case in which the good is put on the market in the EEA by the trademark proprietor but also in the case in which the good is put on the market in the EEA with the consent of the trademark proprietor. Critical questions about the law that governs the semantic content of consent, the form in which consent must be expressed, the scope of consent, and the cases in which consent is to be recognised that it has been provided are answered by the Court's judgments in *Zino Davidoff and Levi Strauss*,[281] *Sebago and Maison Dubois*,[282] and *IHT Internationale Heiztechnik v. Ideal-Standard*.[283]

9.5.2.2 The Decision *Zino Davidoff and Levi Strauss*: The "Consent" as an EU Law Concept—How Must Consent Be Expressed?

Factual Background in *Zino Davidoff and Levi Strauss*

In *Zino Davidoff*, the proprietor of a trademark reached an exclusive distribution agreement with a trader who was established in a non-EEA Member State. Pursuant to that agreement, the distributor undertook, firstly, to sell goods bearing the trademark solely within a defined territory outside the EEA to local sub-distributors, subagents, and retailers and, secondly, to impose on those co-contractors a prohibition of resale of the goods outside the stipulated territory. Stocks of those goods were bought and then imported and put on the market in parallel in a Member State.

The facts in *Levi Strauss* were similar. In particular, also in the aforesaid case, independent resellers bought goods bearing a trademark that had been sold for the first time by the trademark proprietor or on its behalf from traders who imported them from countries outside the EEA. The contracts pursuant to which they acquired those products contained no restrictive covenants to the effect that the goods were, or were not, to be sold in a particular territory.

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[281] Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others*, [2001] ECR I-8691.

[282] Case C-173/98, *Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA*, [1999] ECR I-4103.

[283] Case C-9/93, *IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789.

What was disputed in the above cases was, of course, the legality of the distribution of the goods in question within the EEA. The High Court of Justice of England and Wales decided to refer, pursuant to Article 234 of the EC Treaty (now Article 267 of the TFEU), some questions regarding, *inter alia*, the concept of "consent" within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] to the ECJ for a preliminary ruling. The questions related to the concept of "consent" may be summarised as follows:

a) Must the consent of the proprietor of a trademark—within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC]—for putting on the market of the goods in the EEA be expressed explicitly, or may it also be inferred from some facts or circumstances?
b) If the consent may also be inferred from some facts or circumstances, do those facts and circumstances include:

    i) the fact that the proprietor of the trademark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA his opposition to marketing within the EEA;
    ii) the fact that the goods carry no warning of a prohibition of their being placed on the market within the EEA; and
    iii) the fact that the trademark proprietor has transferred the ownership of the goods bearing the trademark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA?

On the basis of the foregoing questions, the Court was called upon to define the conditions that must be met so that the proprietor of a trademark is deemed that he has given his consent for the (re-)importation and putting on the market within the EEA of goods bearing the trademark that have been put on the market for the first time by the trademark proprietor or by an authorised (by the proprietor) person outside the EEA. The Court's answer to the foregoing questions may be divided into two parts: a) examining whether the concept of "consent" is subject to the national or Community (now EU) law and b) examining the issue of how consent must be expressed.

The Consent as an EU Law Concept

As for the issue of the law that is to apply in order to define the semantic content of "consent", the Court was diversified away, as expected, from the referring court, which in a summary judgment procedure in *Zino Davidoff* held, pursuant to the private international law provisions of the Convention on the Law Applicable to Contractual Obligations (1980), that the law applicable to define the semantic content of "consent" was the British law in that case.[284] In particular, following the Opinion of Advocate General Stix-Hackl in *Zino Davidoff* and *Levi Strauss,* the Court stated that it falls to it to supply a uniform interpretation of the concept of consent for the placing of trademarked goods on the market within the EEA as referred to in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC].[285] The concept of "consent" for putting on the market of a trademarked good within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC is, therefore, an EU concept.

The Court justified the above position by reference to the need for a uniform protection for trademark proprietors in all the Member States.[286] Besides, the above position is consistent with the ECJ's settled case law, according to which "the need for a uniform application of European Union law and the principle of equality require that the terms of a provision of European Union law which makes no express reference to the law of the Member States for the purpose of determining its meaning and scope must normally be given an independent and uniform interpretation throughout the European Union; that interpretation must take into account the context of the provision and the objective of the relevant legislation".[287]

Besides, a uniform interpretation of the concept of "consent" within the meaning of Articles 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 is imposed for other reasons and mostly for reasons connected with safeguarding the outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment. In particular, an interpretation of the concept under consideration in the light of the national laws of the Member States could lead to a de facto recognition of the legality of the principle of international exhaustion of national trademark rights against the outcome of the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment.[288] This is because, in the light of the national laws of the Member States, the fact that no provision on the possibility of trademarked goods being imported into the EEA is included in a contract for the sale of the goods or, in other words, the fact that trademarked goods have been put on the market outside the EEA without any reservation means, normally, that the proprietor of the trademark borne by the

[284] *Zino Davidoff, SA v A&G Imports Ltd* (summary judgment procedure, Justice Laddie), 3 All ER 711 (1999) = 2 *CMLRev*. 1056 (1999) = 30 IIC 567 (1999). For the aforementioned decision, see Carboni (1999); Norman (2000), pp. 168–169; Stamatoudi (2003), pp. 568–571; Swift (1999); Torremans and Stamatoudi (2000).

[285] Joined Cases C-414/99 to 416/99, n. 281 above, para. 43.

[286] Joined Cases C-414/99 to 416/99, n. 281 above, para. 42.

[287] See *supra* n. 30.

[288] See Cushley (2001); Stothers (2001), according to whom the Opinion of Advocate General Stix-Hackl in *Zino Davidoff* and *Levi Strauss* confirms the result of the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft.*

goods has implicitly given his consent for the importation and distribution of the goods in the EEA.[289] However, such a result is equivalent to an implied acknowledgement of the principle of international exhaustion of trademark rights, which is prohibited by the provisions of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC. In addition, if it were to be accepted that putting a trademarked good on the market outside the EEA without any reservation is tantamount to consent of the trademark proprietor, within the meaning of those provisions, for putting the good on the market in the EEA, then, in order to avoid the rights conferred by the trademark being exhausted, each purchaser of the good, apart from the first purchaser, should be notified, in a legal manner, of the fact that, according to the contract for the first sale of the good, the trademark proprietor retained the right to oppose the importation and distribution of the good in the EEA or, alternatively, a relevant label should have been placed on the good. If the purchasers of the good (apart from the first purchaser) were not notified of the fact that the contract for the first sale of the good defined a specific geographic area where the good could be resold or if the relevant label were removed, then, according to national laws on good faith acquisition, any of those purchasers could legally import and put the good on the market in an EU Member State. The situation would become more complicated and difficult for trademark proprietors if one takes into consideration that there are goods upon which it is difficult to place labels or that the relevant label may have been removed from the good and that the trademark proprietor (and not the distributor or the reseller of a trademarked good) is the one who bears the burden of proving that the trademarked good has been sold for the first time on condition that it will never be resold within the EEA.[290] Finally, an additional reason for a uniform interpretation of the concept under consideration in all the EU Member States is not to charge trademark proprietors with the burden to have recourse to private international law rules and national mandatory rules on contracts at each stage of the distribution chain of trademarked goods. Indeed, if the concept in question were not to be interpreted in a uniform way in all the EU Member States, the proprietor of a trademark would be charged with that burden in order to avoid or accept that his consent for putting goods bearing the trademark on the market in the EEA is considered to be given, as a result of the way in which national rules on contracts are construed by the national courts of each Member State.

Expression of Consent

The contribution of the ruling in *Davidoff and Levi Strauss* to the interpretation of the concept of "consent" within the meaning of Article 7 (1) of Directive 89/104/

[289] See Carboni (1999), pp. 525–526; Norman (2000), p. 169; Stamatoudi (2003), pp. 570–571; Torremans and Stamatoudi (2000), p. 134; Swift (1999), p. N146.

[290] See Stamatoudi (2003), p. 571; Torremans and Stamatoudi (2000), p. 134.

EEC [now Article 7 (1) of Directive 2008/95/EC] and Article 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009] includes the determination of the conditions that, if they are met, it must be accepted that the proprietor of a (national or Community) trademark has consented to goods bearing the trademark having been put on the market in the EEA. In particular, according to the questions referred to the ECJ, the latter was called upon to decide on whether a trademark proprietor's consent within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] may also be implied and on the facts and circumstances from which such consent may be deduced.

In relation to the first issue, i.e. whether a trademark proprietor's consent within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] may also be implicit, the Court ruled that:

> In view of its serious effect in extinguishing the exclusive rights of the proprietors of the trade marks in issue in the main proceedings (rights which enable them to control the initial marketing in the EEA), consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated.
>
> Such intention will normally be gathered from an express statement of consent. Nevertheless, it is conceivable that consent may, in some cases, be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his rights.[291]

Based on these formulations, the consent provided for in Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC must be expressed in a positive way and may be given either expressly or implicitly but cannot be inferred from the mere silence of the trademark proprietor. As the Court pointed out in a previous paragraph of the decision under examination, "a rule of national law which proceeded upon the mere silence of the trade mark proprietor would not recognize implied consent but rather deemed consent. This would not meet the need for consent positively expressed required by Community law".[292]

The fact that the Court accepted that the consent provided for in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] may be deduced from the facts and circumstances of each individual case led the Court to give further information on the said facts and circumstances. In particular, the Court held that:

> Implied consent to the marketing within the EEA of goods put on the market outside that area cannot be inferred from the mere silence of the trade mark proprietor.
>
> Likewise, implied consent cannot be incurred from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA his opposition to marketing within the EEA.
>
> Finally, implied consent cannot be incurred from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual reservations and that, according to the law governing the contract, the property

[291] Joined Cases C-414/99 to 416/99, n. 281 above, paras 45–46.

[292] Joined Cases C-414/99 to 416/99, n. 281 above, para. 58.

right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA.[293]

In the light of the above statements, it is possible to express the following views regarding the way in which the consent provided for in Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC may be expressed:

i) In view of its serious effect in extinguishing the exclusive rights of trademark proprietors, consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated.[294]
ii) Such an intention will normally be gathered from an express statement of consent. Nevertheless, it is conceivable that consent may, in some cases, in the view of the national court, be deduced from facts and circumstances prior to, simultaneous with, or subsequent to the placing of the goods on the market outside the EEA.[295]
iii) Given that consent must be expressed positively, the facts and circumstances taken into consideration in determining whether there is an implied consent must unequivocally demonstrate that the trademark proprietor has renounced his right to oppose the importation of the goods in question in Member States of the EU.[296]
iv) The requirement that consent must be expressed positively implies that it is for the trader alleging consent to prove it and not for the trademark proprietor to demonstrate its absence.[297]
v) Implied consent cannot be inferred from the mere silence of the trademark proprietor[298] or from facts and circumstances that do not imply the proprietor's renunciation of his exclusive right. Therefore, implied consent cannot be inferred (a) from the fact that the proprietor of the trademark has not communicated to all subsequent purchasers of goods placed on the market outside the EEA his opposition to marketing within the EEA, (b) from the fact that trademarked goods carry no warning that it is prohibited to place them on the market within the EEA, or (c) from the fact that the trademark proprietor has transferred the ownership of goods bearing the trademark without imposing any contractual reservations or from the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the

[293] Joined Cases C-414/99 to 416/99, n. 281 above, paras 55–57.

[294] Joined Cases C-414/99 to 416/99, n. 281 above, para. 45.

[295] Joined Cases C-414/99 to 416/99, n. 281 above, para. 46.

[296] Joined Cases C-414/99 to 416/99, n. 281 above, para. 46.

[297] Joined Cases C-414/99 to 416/99, n. 281 above, paras 53–54. With regard to the burden of proving the requirements of Articles 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation 207/2009/EC, see *infra* Sect. 9.6.4.

[298] Joined Cases C-414/99 to 416/99, n. 281 above, para. 55.

goods subsequently within the EEA.[299] Furthermore, given that consent must be expressed positively, it may not be inferred from the tolerance shown by the trademark proprietor against infringement of his right by a third party. Therefore, consent cannot be inferred from the tolerance shown by the trademark proprietor against an illegal putting on the market of goods bearing the trademark within the EEA.[300]

vi) Given that consent cannot be inferred from the mere silence of the trademark proprietor, it is irrelevant to the exhaustion of the rights conferred by a (national or Community) trademark whether, according to the national rules of a Member State on the enforceability of sales restrictions against third parties, a restriction of the right to dispose freely of trademarked goods, imposed on the first purchaser by the first vendor or agreed between the two parties to the sale, may be relied upon as against a third party transferee.[301]

Finally, it is to be noted that the assessments made by the Court in the decision in *Zino Davidoff and Levi Strauss* in relation to the way in which the consent provided for in Article 7 (1) of Directive 89/104/EEC [now Article 7(1) of Directive 2008/95/EC] must be expressed apply not only to goods bearing a national or Community trademark that have been put on the market for the first time outside the EEA but also to goods bearing a national or Community trademark that have been put on the market for the first time in an EEA Member State. This position was confirmed

[299] Joined Cases C-414/99 to 416/99, n. 281 above, paras 56–57 & 60. In a recent decision, the Court also held, in the light of the decision in *Zino Davidoff and Levi Strauss,* that "In circumstances such as those of the main proceedings, where 'perfume testers' are made available, without transfer of ownership and with a prohibition on sale, to intermediaries who are contractually bound to the trade mark proprietor for the purpose of allowing their customers to test the contents, where the trade mark proprietor may at any time recall those goods and where the presentation of the goods is clearly distinguishable from that of the bottles of perfume normally made available to the intermediaries by the trade mark proprietor, the fact that those testers are bottles of perfume which bear not only the word 'Demonstration' but also the statement 'Not for Sale' precludes, in the absence of any evidence to the contrary, which it is for the national court to assess, a finding that the trade mark proprietor impliedly consented to putting them on the market" (Case C-127/09, *Coty Prestige Lancaster Group GmbH v Simex Trading AG*, [2010] ECR I-4965, para. 48; see also Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, para. 72).

[300] See Fezer (2009), § 24 MarkenG, p. 1638, Nr. 30; Mulch (2001), pp. 36–37, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]; Tritton (2002), p. 496, para. 7-048,

[301] Joined Cases C-414/99 to 416/99, n. 281 above, paras 64–65. On the basis of this remark, the Court further accepted that "that with regard to exhaustion of the trade mark proprietor's exclusive rights, it is not relevant: (a) that the importer of goods bearing the trade mark is not aware that the proprietor objects to their being placed on the market in the EEA or sold there by traders other than authorised retailers, or (b) that the authorised retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even though they have been informed of it by the trade mark proprietor" (Joined Cases C-414/99 to 416/99, n. 281 above, para. 66).

expressly by the ECJ in its recent judgment in *Makro Zelfbedieningsgroothandel and others*[302] on the ground that nothing in the wording of the judgment in *Zino Davidoff and Levi Strauss* indicates that the statements made by the Court in that judgment, concerning the facts and circumstances from which the implied consent of a trademark proprietor may be inferred, are applicable only in a factual context such as that and cannot have general application.[303]

9.5.2.3 Scope of Consent: The Decision in *Sebago and Maison Dubois*

According to the general theory on exhaustion of rights,[304] the exhaustion of rights principle does not apply to the entire production line of a trademarked product but only to trademarked items of a product that have been put on the market by the trademark proprietor or with his consent. This statement is also true for the principle of EU-wide exhaustion of national and Community trademark rights, as confirmed by the Court in *Sebago and Maison Dubois*.[305]

In this case, the dispute concerned a company that advertised and sold within the EU goods bearing a trademark that the company bought outside the EEA without the trademark proprietor having consented to the sale of the goods within the EEA. According to that company, the consent provided for in Article 7 (1) of the Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] was not required to relate to the actual goods involved in the parallel import. This is because the essential function of the trademark, which, according to the case law of the Court, is to guarantee to the consumer the identity of the product's origin, the object being to enable him to distinguish that product without any risk of confusion from those of different origin, does not imply that the trademark proprietor has the right to prohibit the importation of genuine goods.[306]

The Court did not adopt the foregoing approach. On the contrary, according to the decision under consideration, "the rights conferred by the trade mark are exhausted only in respect of the individual items of the product which have been put on the market with the proprietor's consent in the territory there defined. The proprietor may continue to prohibit the use of the mark in pursuance of the right conferred on him by the Directive in regard to individual items of that product which have been put on the market in that territory without his consent".[307]

The exhaustion of the rights conferred by a national or Community trademark does not concern, therefore, the whole of the production line of a product that is

[302] Case C-324/08, *Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA*, [2009] ECR I-10019.

[303] Case C-324/08, n. 302 above, para. 27.

[304] See *supra* Sect. 1.4.2.4.

[305] See *supra* n. 282.

[306] Case C-173/98, n. 282 above, para. 16.

[307] Case C-173/98, n. 282 above, para. 19.

distinguished by the trademark but only specific items of the product for which the proprietor has given his consent, either expressly or implicitly, to their putting on the market in the EEA.

As pointed out, the above view of the Court could already be inferred from the general theory on exhaustion of rights. Indeed, it would be absurd if the putting on the market of a trademarked item of a product implied the exhaustion of the rights conferred by the trademark also in relation to items of the same product that have not been put on the market in the EEA by the mark proprietor or with his consent. The fact that parallel importers are forced to determine whether each trademarked item of a product has been put on the market in the EEA by the trademark proprietor or with his consent, which may be both time consuming and expensive,[308] cannot be to the detriment of trademark proprietors. On the contrary, based on the Opinion of Advocate General Jacobs in *Sebago and Maison Dubois,* any undesirable effects of Directive 2008/95/EC and Regulation (EC) 207/2009 may be remedied either through an amendment of those legal instruments, so that the latter provide for the principle of international exhaustion of national and Community, respectively, trademark rights, or through the conclusion of International Agreements between the EU and third countries that will extend the scope of exhaustion provided for in those legal instruments to trademarked goods put on the market in those countries, as was done in the EEA Agreement.[309]

9.5.2.4 Cases of Consent

The Criterion for Identifying Cases of Consent

According to the decision in *Zino Davidoff and Levi Strauss,* the consent provided for in Articles 7 (1) of Directive 2008/95/E and 13 (1) of Regulation (EC) 207/2009 may be given either expressly or implicitly, i.e. it may gathered from an express statement by the trademark proprietor or from facts and circumstances prior to, simultaneous with, or subsequent to the placing of the goods in question on the market that unequivocally demonstrate that the trademark proprietor has renounced his right to oppose the importation of the goods in question in EU Member States. In spite of the fact that, according to the above-mentioned decision, consent cannot be deduced from the mere silence of the trademark proprietor or from facts and circumstances that do not unequivocally demonstrate that the trademark proprietor has renounced his right to oppose the importation of the goods in question in EU Member States, the case law of the Court has acknowledged some cases where the consent of the proprietor of a trademark for putting goods bearing the trademark on the market in the EEA is presumed to be irrefutable.

[308] Cf. Hays (2004), p. 300, para. 7.44.

[309] Cf. Opinion of Advocate General Jacobs in Case C-173/98, n. 282 above, point 30.

The criterion for identifying those cases is to be found in the common feature of all cases of parallel imports, which is that the use of the trademark of the goods imported in parallel in the exporting country and the use of the trademark by invocation of which the prohibition of the parallel importation is sought are under common control, namely that the trademark of the goods imported in parallel is used or, in any event, could be used by the same person in the exporting and the importing countries.[310] The adoption of that criterion is motivated precisely by the origin function of the trademark (essential function of the trademark), which implies that a trademark must offer the guarantee that all goods bearing it have been produced under the control of a single body, which is accountable for their quality.[311] That body shall be the group of undertakings when it comes to goods that have been put on the market by the parent or a subsidiary undertaking of the group, the licensor when it comes to goods that have been put on the market by a trademark licensee, and the producer when it comes to products that have been put on the market by an authorised (exclusive or selected) distributor.[312]

Therefore, based on the criterion of the single control of the use of the trademark of the goods imported in parallel in the exporting and importing Member States, the Court's case law identified a number of cases where it must be accepted, as an irrefutable presumption, that a trademark proprietor has consented to goods bearing the trademark having been put on the market in the EEA within the meaning of the provisions of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 (hereinafter: "consent").[313] These cases are discussed in details in the following sections.

[310] Case C-9/93, n. 283 above, para. 39; Opinion of Advocate General Stix-Hackl in Joined Cases C-414/99 to 416/99, n. 281 above, point 79. It is taken for granted, of course, that the exporting Member State and the Member State where the parallel imported goods have been put on the market are the same, namely that the parallel imported goods are exported in parallel from the Member State where they have been put on the market for the first time. On the contrary, in relation to goods not imported in parallel for the first time, namely in relation to the case in which the exporting Member State and the Member State where the parallel imported goods have been put on the market for the first time are not the same, the relevant Member State is the Member State where the goods have been put on the market for the first time. See also *supra* Sect. 1.4.1.

[311] Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, [1990] ECR I-3711, para. 13; Case C-9/93, n. 283 above, para. 37. Although the Court refers only to quality, the entity under the control of which a good has been produced is, of course, accountable also for the other characteristics of the good.

[312] Case C-9/93, n. 283 above, para. 37. Although the ECJ refers only to "exclusive distribution", it is submitted that both exclusive distribution and selective distribution are forms of distribution authorised by the manufacturer.

[313] Case C-9/93, n. 283 above, para. 34. Regarding the fact that in the following cases the consent of the proprietor of a trademark for putting goods bearing the trademark on the market in the EEA is presumed to be irrefutable, see also Stothers (2007), p. 60; Tritton (2002), p. 477, para. 7-024, who observes that the exhaustion of trademark rights does not rely upon express consent.

Analysis of the Cases of Consent

Marketing of a Trademarked Good by an Undertaking of the Same Group

A first case of consent is to be found where trademarked goods have been put on the market in the EEA by an undertaking belonging to the same group as the trademark proprietor.[314] The assumption that it is not possible for the proprietor of a trademark to oppose the importation and marketing of goods bearing the trademark that have been put on the market in an EEA Member State by an undertaking belonging to the same group is based on the finding that the use of the trademark of the goods in the exporting and importing Member States could belong to the parent undertaking of the group.

It is clarified that for Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to apply, it makes no difference whether the trademark proprietor is the parent or a subsidiary undertaking of a group.[315] Indeed, it is not completely accurate to say that a subsidiary undertaking has consented to trademarked goods being marketed by its parent undertaking or by another subsidiary undertaking belonging to the same group. However, at least two factors support the view that, in cases where the trademark proprietor-parent undertaking cannot exercise his right to oppose a parallel importation of goods bearing the trademark, i.e. in cases where the right of the trademark proprietor-parent undertaking is considered to have been exhausted, the right of a trademark owner-subsidiary undertaking must be considered to have been exhausted too. The first one is that there are especially close ties between a subsidiary undertaking and its parent undertaking.[316] The second one is that a subsidiary undertaking has normally registered its right on the basis of a prior assignment by the parent undertaking or an express or implied consent by the parent undertaking to such registration.[317] Based on those two factors, it would be indeed irrational to accept that a trademark owner-subsidiary undertaking has more rights with regard to a specific trademarked good than the trademark owner-parent undertaking has, as far as the same good is concerned.

Finally, it should be noted that an undertaking-member of a group cannot invoke its trademark right to oppose the parallel importation of goods bearing its trademark that have been put on the market by another undertaking of the group on the ground that the quality (or other characteristics) of the goods is not geared to the particularities of the market of the Member State of importation. According to the Court,

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[314] See also Fezer (2009), § 24 MarkenG, p. 1637, Nr. 28, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG] and, under the WZG, Ebenroth (1992), pp. 26–27, Nr. 23; Ullrich (1983), pp. 373–374.

[315] Cf. Case C-9/93, n. 283 above, para. 35.

[316] Indeed, both undertakings coordinate their marketing policy in the common interest of the group to which they belong. Cf. Opinion of Advocate General Gulmann in Case C-9/93, n. 283 above, point 68.

[317] See the classification of parallel imports suggested *supra* in Sect. 1.4.1.

the group has to bear the consequences of its choice. Among those consequences, the possibility of parallel imports of goods that have been manufactured by the undertakings of the group but whose quality (or other characteristics) is not geared to the particularities of the market of the importing Member State is included.[318]

Marketing of a Trademarked Good by a Trademark Licensee

A second case of consent is the marketing of trademarked goods within the EEA by a trademark licensee who has not only the right to manufacture but also the right to put on the market of goods bearing the trademark.[319] The assumption that it is not possible for the proprietor of a trademark to oppose the importation and marketing of goods bearing the trademark that have been put on the market in an EEA Member State by a trademark licensee is based on the finding that the use of the trademark of the goods in the exporting and importing Member States could belong to the trademark proprietor (licensor).

It should be noted that a trademark proprietor (licensor) cannot oppose the parallel importation of goods that have been manufactured and put on the market by a trademark licensee even if the quality (or other characteristics) of the goods is not geared to the instructions of the trademark proprietor. This is because the trademark proprietor can control the quality of the licensee's products by including in the contract (licensing agreement) clauses requiring the licensee to comply with his instructions and giving him the possibility of verifying such compliance.[320] Besides, it is irrelevant whether the trademark proprietor actually exercised control over the quality (or other characteristics) of the goods manufactured by the licensee. Instead, what is relevant is whether there was the possibility of such control. Thus, if the licensor tolerates the manufacture of poor quality goods, despite having contractual means of preventing it, he must bear the responsibility. The latter responsibility includes the non-possibility of preventing parallel imports of the aforementioned goods between Member States.[321]

An issue is raised as to whether the consent is present in cases where the trademark licensee has put on the market trademarked goods in contravention of any contractual prohibitions or restrictions laid down in the licence. That issue is examined in detail below, in the light of the recent case law of the ECJ.

[318] Case C-9/93, n. 283 above, para. 38. See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

[319] See also Fezer (2009), § 24 MarkenG, pp. 1639–1640, Nr. 34–36, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG] and, under the WZG, Ebenroth (1992), p. 26, Nr. 22.

[320] Case C-9/93, n. 283 above, para. 37.

[321] Case C-9/93, n. 283 above, para. 38. See also *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

Marketing of a Trademarked Good by an Authorised (Exclusive or Selective) Distributor

A third case of consent is the marketing of trademarked goods in the EEA by an authorised (exclusive or selective) distributor of the trademark proprietor.[322] The assumption that it is not possible for the proprietor of a trademark-manufacturer to oppose the importation and marketing of goods bearing the trademark that have been put on the market in an EEA Member State by an authorised (exclusive or selective) distributor is based on the finding that the use of the trademark of the goods in the exporting and importing Member States could belong to the manufacturer of the goods.

However, with respect to this case of consent, it should be stressed that, in the light of the Court's case law, it may arise only where an authorised distributor puts on the market in a Member State of the EEA goods that have been marketed for the first time outside the EEA by the trademark proprietor or with the latter's consent. This is because, according to the judgment in *Peak Holding,* when the proprietor of a trademark sells trademarked goods to an authorised (by him) distributor established in the EEA, such a sale itself constitutes a putting on the market of the goods by the proprietor for the purposes of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, even if the distributor is obligated to resell the goods outside the EEA.[323]

It is clarified, also in relation to this case of consent, that Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 apply also to the right of a (trademark proprietor-exclusive distributor).[324] Indeed, it is not completely accurate to say that a trademark proprietor-exclusive distributor has consented to goods bearing the trademark being marketed by the trademark proprietor-manufacturer or by another trademark proprietor-exclusive distributor of the same manufacturer. However, at least two factors support the view that, in the case that the trademark proprietor-manufacturer cannot exercise his right to oppose a parallel importation of goods bearing the trademark, i.e. in the case that the right of the trademark proprietor-manufacturer is considered to have been exhausted, the right of a trademark owner-exclusive distributor must be considered to have been exhausted too. The first one is that there are especially close ties between a manufacturer and an authorised (by the manufacturer) exclusive distributor.[325]

[322] See also Fezer (2009), § 24 MarkenG, pp. 1638–1639, Nr. 31–32, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG] and, under the WZG, Ebenroth (1992), p. 25, Nr. 21. Despite the fact that the ECJ refers only to "exclusive distribution", it is submitted that both exclusive distribution and selective distribution are forms of distribution authorised by the manufacturer.

[323] See Stothers (2007), p. 60.

[324] Cf. Case C-9/93, n. 283 above, para. 35.

[325] The authorized distributor is characterised by a legal author as "an extension of the supplier's arm". See Ulmer (1969), p. 3; also Keeling (2003), p. 84, who observes that "the economic links between a manufacturer and a distributor of goods (especially an exclusive one) are so strong that, where the former assigns his trade mark or patent rights to the latter, the two are clearly involved in

The second one is that an exclusive distributor has normally registered its right on the basis of a prior assignment by the trademark proprietor-manufacturer or an expressed or implied consent by the trademark proprietor-manufacturer to such registration.[326] Based on those two factors, it would be indeed irrational to accept that a trademark owner-exclusive distributor has more rights with regard to a specific trademarked good than the trademark owner-manufacturer has, as far as the same good is concerned.

Forced Sale of a Trademarked Good by Court Order

The forced sale of a trademarked good by court order must also be considered to be a case of putting the good on the market with the consent of the trademark proprietor under Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009. In such a case, the missing de facto consent is filled in by the very nature of the forced sale of the good by court order. A different solution would exempt the good, essentially, from seizure, since it would limit, to a large extent, the successful tenderer's possibilities for obtaining economic benefits from the use of the trademark of the good.[327]

Mixed Cases

Finally, it is noted that the consent may be deduced from a combination of the above cases. Thus, e.g., the proprietor of a trademark cannot oppose the importation and marketing of goods bearing the trademark in a Member State if the goods have been put on the market in the EEA by an exclusive or selective distributor of an undertaking of the same group. Also, the proprietor of a trademark-exclusive distributor cannot oppose the importation and marketing of goods bearing the trademark in a Member State if the goods have been put on the market in the EEA by an exclusive or selective distributor of an undertaking belonging to the same group as the manufacturer. Moreover, the proprietor of a trademark cannot oppose the importation and marketing of goods bearing the trademark in a Member State if the goods have been put on the market in the EEA by the holder of a trademark licence granted by another undertaking belonging to the same group. Finally, the proprietor of a trademark-exclusive distributor cannot oppose the importation and marketing of goods bearing the trademark in a Member State if

a joint enterprise to exploit intellectual property rights". For the authorised distribution agreement, see Babetas (2003), pp. 15–16; Farmakidis (1990); Mastrokostas (2005), pp. 22–27; Tzouganatos (2001), pp. 4–7.

[326] See the classification of parallel imports suggested *supra* in Sect. 1.4.1.

[327] Cf. Fezer (2009), § 24 MarkenG, pp. 1630–1631, Nr. 17, in relation to the exhaustion of rights provision of the German trademark law [Article 24 (1) MarkenG]. An opposite view was accepted under the WZG, in view of the fact that the possibility of an undertaking and the undertaking's trademark being seized and being objects of an auction separately was not accepted.

the goods have been put on the market in the EEA by the holder of a trademark licence granted by the manufacturer.

Consent and Breach of Contractual Provisions in the Trademark Licence

A question arises as to whether the proprietor of a trademark may oppose the importation of goods that have been manufactured or put on the market by a trademark licensee in breach of a contractual stipulation in the trademark licence.

According to an approach, in order to answer the above question, the legality of the contractual stipulation in question should be considered under Article 81 of the EC Treaty (now Article 101 of the TFEU).[328] In particular, the consent within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 should not be considered to be missing if the contractual stipulation breached by the licensee is incompatible with Article 81 (1) of the EC Treaty [now Article 101 (1) of the TFEU] and cannot be justified in the light of paragraph 3 of Article 81 of the EC Treaty [now Article 101 (3) of the TFEU]. On the contrary, the consent within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 should not be considered to exist if the licensee has breached a contractual stipulation that is compatible with Article 81 of the EC Treaty (now Article 101 of the TFEU). This approach is based on the assumption that the free movement of goods provisions of the EC Treaty (now TFEU) must be interpreted in line with the competition rules of the EC Treaty (now TFEU). In this regard, it has been stressed that the application of the rule enshrined in Article 30 of the EC Treaty (now Article 34 of the TFEU), on which the development of the doctrine of Community-wide exhaustion of intellectual property rights was based, should not be ruled out if a trademark licensee manufactures or puts on the market trademarked goods in breach of contractual provisions of the licence agreement whose observance would entail violation of Article 81 of the EC Treaty (now Article 101 of the TFEU).

According to another approach, breach of a contractual stipulation in a trademark licence should imply that no consent within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 exists if that breach is, at the same time, infringement of the trademark right, i.e. if that breach may be invoked by the trademark proprietor *erga omnes* and not only against the licensee.[329] On the contrary, the consent within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 should be considered to exist if that breach constitutes only breach of the licence agreement, i.e. if that breach gives rise only to a contractual claim for damages against the licensee. This approach is based on the observation that Article 30 of the EC Treaty (now Article 36 of the TFEU) allows for restrictions on the free movement of goods in the

[328] Keeling (2003), pp. 89–90.

[329] Mulch (2001), pp. 26–27; Fezer (2009), § 24 MarkenG, p. 1640, Nr. 37–39.

interests of protecting trademark rights, but the requirements for trademark protection are stated in the national laws of the Member States and not in the agreements concluded by trademark proprietors on the exploitation of their rights. Thus, according to this approach, the consent within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 should be considered to be missing if the licensee has breached a contractual stipulation included among those listed in Article 8 (2) of Directive 89/104/EEC [now Article 8 (2) of Directive 2008/95/EC] and Article 22 (2) of Regulation (EC) 40/94 [now Article 22 (2) of Regulation (EC) 207/2009]. This is because only the breach of the contractual provisions listed in Article 8 (2) of Directive 89/104/EEC [now Article 8 (2) of Directive 2008/95/EC] and Article 22 (2) of Regulation (EC) 40/94 [now Article 22 (2) of Regulation (EC) 207/2009]. may be invoked by the trademark proprietor not only against the licensee but also against any other party that acquired trademarked goods from the licensee.

In its recent decision in *Copad,*[330] the Court, following the Opinion of Advocate General Kokott, adopted the second of the foregoing approaches. Amongst the issues judged in the previously mentioned decision was the one as to whether trademarked goods that have been put on the market by a trademark licensee within the EEA are considered to have been put on the market with the consent of the trademark proprietor within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EEC] in cases where the licensee marketed the goods in breach of a provision in the licence agreement prohibiting the licensee, on grounds of the trademark's prestige, to sell the goods bearing the trademark covered by the contract to discount stores.

To answer the above question, the Court subjected, first of all, the provision in question to Article 8 (2) of Directive 89/104/EEC [now Article 8 (2) of Directive 2008/95/EC], provided it has been established that the contravention of that provision, by reason of the situation prevailing in the case in question, damages the allure and prestigious image that bestows on the goods in question an aura of luxury, thus affecting their quality.[331] Then, on the basis of the wording of Article 8 (2) of Directive 89/104/EEC [now Article 8 (2) of Directive 2008/95/EC], the Court accepted that only the licensee's contravention of one of the clauses expressly mentioned in the aforesaid provision precludes exhaustion of the rights conferred by the trademark on its proprietor, for the purposes of Article 7 (1) of the Directive [now Article 7 (1) of Directive 2008/95/EC].[332] More precisely, the Court justified its position that only the licensee's contravention of one of the provisions listed in Article 8 (2) of Directive 89/104/EEC [now Article 8 (2) of Directive 2008/95/EC] precludes the application of the rule enshrined in Article 7 (1) of the Directive [now Article 7 (1) of Directive 2008/95/EC] on the ground that Article 8 (2) of Directive

[330] Case C-59/08, *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, [2009] ECR I-3421.

[331] Case C-59/08, n. 330 above, paras 22–37.

[332] Case C-59/08, n. 330 above, paras 48–51; Opinion of Advocate General Kokott in Case C-59/08, n. 330 above, points 45–47.

89/104/EEC [now Article 8 (2) of Directive 2008/95/EC] expressly allows the trademark proprietor to invoke the rights conferred by the trademark against a licensee where the latter contravenes certain provisions in the licence agreement.[333] Better, however, seems the justification provided by Advocate General Kokott, who correctly observes that "there is no apparent reason why the rights conferred by a trade mark should be limited in scope in respect of a licensee only [pursuant to Article 8 (2) of Directive 89/104/EEC (now Article 8 (2) of Directive 2008/95/EC)], but take full effect in respect of a third person who is not a party to the licence agreement".[334] The latter observation may be understood even better if one takes into account that those purchasing from the licensee would not normally know the content of the licence agreement, including the contractual provisions set out in that agreement.[335]

Thus, the consent provided for in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 does not exist, and exhaustion of trademark rights is precluded if a trademark licensee has manufactured or put on the market trademarked goods in contravention of a contractual provision mentioned in Articles 8 (2) of Directive 2008/95/EC and 22 (2) of Regulation (EC) 207/2009, i.e. in contravention of a contractual provision regarding:

a) the duration of the licence, i.e. if the licensee put a trademarked good on the market after his licence had expired;
b) the form covered by the registration in which the trademark may be used, i.e. if the licensee has put on the market a good under a mark that may be confused with the trademark licensed;
c) the scope of the goods or services for which the licence has been granted;
d) the territory in which the trademark may be affixed, i.e. if the licensee has put on the market a trademarked good through a point of sale in which the trademark must not be affixed to goods. It is probably imperative to stress that Articles 8 (2) (d) of Directive 2008/95/EC and 22 (2) (d) of Regulation (EC) 207/2009 refer to a contractual provision concerning only the territory in which the trademark may be affixed and not the territory within which trademarked goods manufactured by the licensee may be put on the market.[336] Thus, if the licensee has put goods bearing a national or a Community trademark on the market in a territory not covered by his licence, without contravening any of the provisions expressly mentioned in Article 8 (2) (d) of Directive 2008/95/EC or Article 22 (2) (d) of Regulation (EC) 207/2009, respectively, the rights conferred by the trademark borne by the goods have been exhausted, without any

[333] Case C-59/08, n. 330 above, para. 48.

[334] Opinion of Advocate General Kokott in Case C-59/08, n. 330 above, point 45.

[335] Opinion of Advocate General Kokott in Case C-59/08, n. 330 above, point 46.

[336] See, in this regard, Harriehausen (2004), p. 99 and Ingerl and Rohnke (2003), p. 1385, Nr. 70. Instead, *Fezer* και *Mulch* subject in error not only the affixation of a trademark ("Markenanbringung" in German) but also any trademark use ("Markenbenutzung" in German), including putting a good under a trademark on the market, to Article 30(2) MarkenG (= 8(2) of Directive 2008/95/EC) (see Fezer 2009, § 24 MarkenG, p. 1640, Nr. 38; Mulch 2001, pp. 25–26).

derogations, provided, of course, that the goods have been put on the market within the EEA. For Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to apply, that is to say, it suffices that there has been the trademark proprietor's consent for putting goods bearing the trademark on the market in the EEA, while the place where the licensee sells, actively or passively, the goods is of no relevance. Such a result is consistent with an opinion expressed in the past by the Commission[337] and also with the Court's case law, according to which an invocation of national trademark laws to prevent or restrict active sales is contrary to the principle of free movement of goods (Articles 34–36 of the TFEU)[338];

e) the quality of the goods manufactured by the licensee. A problem is created with regard to the true meaning of the provisions of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009, whose usefulness has been questioned in legal literature on the basis of the formulations by the ECJ in the judgment in *IHT Internationale Heiztechnik v. Ideal-Standard*.

Indeed, in the above-mentioned judgment, the Court accepted that the proprietor of a trademark cannot invoke the rights conferred by the trademark against purchasers of goods bearing the trademark on the grounds that the licensee who put the goods on the market did not comply with the instructions given to the latter by the

[337] See recital 9 in the Preamble to the "Amended proposal for a Council Regulation on the Community Trade Mark" [COM (84) 470 final, OJ C 230/1 of 31.08.1984] and recital 8 in the Preamble to the "Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks" (COM (85) 793 final, OJ C 351/4 of 31.12.1985), where it is pointed out that it follows from the principle of free flow of goods that the proprietor of a national or a Community trademark must not be entitled to prohibit the use of the trademark, for reasons based on trademark law, by a licensee who supplies the goods or services under the trademark outside the territory covered by the licence.

[338] See Case C-9/93, n. 283 above, para. 34. It is worth noting that that case law is in contrast with the practice of the Commission to consider, in the light of Article 81 (3) of the EC Treaty [now Article 101 (3) TFEU], clauses prohibiting trademark licensees from selling actively trademarked goods into other licensees' territories to be legal on the ground that such clauses are likely to contribute to the improvement of the distribution of products (see Commission decisions in *Campari* (OJ L 70/69 of 13/03/1978) and *Moosehead v. Whitbread* (OJ L 100/32 of 20/04/1990), as well as Grigoriadis (2006), pp. 145–153. However, as has been correctly pointed out, the different positions taken by the Commission and the ECJ on the issue of the legality of active sales made by trademark licensees to other licensees' territories are due to the fact that the free movement of goods provisions and the competition rules of the TFEU have different subject matter of protection. Thus, hindering the circulation of trademarked goods that have been put on the market in the EU by the trademark proprietor or with his consent by reference to the trademark protection provided by national laws is incompatible with Articles 34–36 of the TFEU. On the other hand, clauses prohibiting trademark licensees from selling actively trademarked goods in other licensees' territories may be considered to be legal under Article 101 of the TFEU on the ground that such clauses may promote inter-brand competition, even though they normally restrict intra-brand competition. See Grigoriadis (2006), p. 153; Joliet (1983–1984), p. 804.

proprietor as to the manufacture of the goods.[339] On the basis of this statement, the practical meaning of the provisions of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009 has been questioned, since it would be possible for a trademark proprietor to raise contractual claim for damages against the licensee who breached clauses set out in the licence agreement even without the provisions of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009.[340]

On the other hand, it is observed that, in the judgment in *Copad*, the Court adopted a wide interpretation of Article 8 (2) (e) of Directive 89/104/EEC [now Article 8 (2) (e) of Directive 2008/95/EC] by accepting that, following consideration of the particular circumstances of each case by the national court, a clause in a trademark licence agreement prohibiting, on grounds of the trademark's prestige, sales to discount stores of goods may possibly fall within the scope of Article 8 (2) (e) of Directive 89/104/EEC [now Article 8 (2) (e) of Directive 2008/95/EC]. In addition, the Court decided that if contravention of a clause falling within the scope of Article 8 (2) (e) of Directive 89/104/EEC [now Article 8 (2) (e) of Directive 2008/95/EC] is proved, there is no consent within the meaning of Article 7 (1) of Directive 89/104/EEC (now Directive 2008/95/EC).

In this author's opinion, the assertion that, despite the provisions of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009, the contravention of a clause in a trademark licence that is deemed by the national court to fall under one of the previously mentioned provisions cannot be invoked against anyone other than the licensee is not correct even without taking into account the formulations contained in the judgment in *Copad*.

In particular, in the judgment in *IHT Internationale Heiztechnik v. Ideal-Standard*, the Court indeed accepted that the proprietor of a trademark cannot oppose commercialisation of goods bearing the trademark that have been put on the market by a trademark licensee even if the latter did not comply with the instructions given by the trademark proprietor in order to ensure a certain level of quality of the goods manufactured by the licensee.[341] The argument put forward by the Court to support this assessment was that the trademark proprietor (licensor) can control the quality of the licensee's goods by including in the contract (licence agreement) clauses requiring the licensee to follow his instructions and giving him the possibility of assuring that his instructions are followed.[342] It follows from that argument that the proprietor of a trademark cannot invoke contravention of a contractual stipulation falling with the scope of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009 against any third party if one of the following circumstances is met:

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[339] See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

[340] Keeling (2003), pp. 92–93.

[341] Case C-9/93, n. 283 above, para. 37.

[342] Case C-9/93, n. 283 above, para. 37.

i) the proprietor did not include in the licensing contract clauses entitling him to check the goods manufactured by the licensee in order to be assured of the licensee's compliance with his instructions as to the level of quality of the goods; or
ii) the proprietor did include in the licensing contract such clauses, but he tolerated the manufacture of poor quality goods by the licensee, or, in all cases, the proprietor did not exercise actual control over the quality of the goods manufactured by the licensee in order to be assured of the licensee' compliance with his instructions as to the level of quality of the goods.[343]

On the contrary, the proprietor of a trademark can invoke contravention of a contractual stipulation falling with the scope of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009 against any third party if the following conditions are satisfied cumulatively:

i) the proprietor did include in the licensing contract clauses entitling him to check the goods manufactured by the licensee, in order to verify that the licensee has complied with the instructions given by the proprietor with regard to the level of quality of the goods;
ii) the proprietor did indeed check, pursuant to the above clauses, the level of quality of the goods manufactured by the licensee;
iii) the proprietor tried to prevent the licensee from manufacturing and putting on the market poor quality goods by bringing actions for an eliminatory injunction and for a prohibitory injunction before the national court that has jurisdiction; and
iv) despite the fact that conditions i)–iii) have been met, the licensee managed to put on the market goods that do not meet the quality level set out by the proprietor as regards the goods manufactured and marketed by the licensee.[344]

Finally, it should be stressed that the marketing of parallel imported goods whose quality differs from the quality of the goods marketed in the importing Member State by the proprietor or by authorised (by him) sellers may, regardless of

[343] Cf. Opinion of Advocate General Kokott in Case C-59/08, n. 330 above, point 50.

[344] Such an interpretation of Articles 8 (2) (e) of Directive 2008/95/EC and 22 (2) (e) of Regulation (EC) 207/2009 is indirectly dictated by paragraph 47 of the judgment in *Copad* and, more clearly, by points 48–51 of the Opinion of Advocate General Kokott in *Copad*. However, before the decision in *Copad,* it was pointed out that it is necessary to accept that the proprietor of a trademark is entitled to oppose parallel imports of goods manufactured by a trademark licensee where use of the trademark might give rise to product liability under Council Directive 85/374/EEC "on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products" (OJ L 210/29, of 07.08.1985), as amended by Directive 1999/34/EC (OJ L 141/20, of 04.06.1999). See Keeling (2003), p. 92, and Articles 1 and 3 (1) of Directive 85/374/EEC, according to which "the producer shall be liable for damage caused by a defect in his product" and "'producer' means any person who, by putting his name, trade mark or other distinguishing feature on the product presents himself as its producer", respectively.

the above considerations, be prevented under the law on unfair competition, as it will be analysed in the next chapter of this Part.[345]

9.6 Specific Issues Concerning Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009

9.6.1 The Legal Effects of the Principle of EU-Wide Exhaustion of the Rights Conferred by National and Community Trademarks

The provisions of the Member States that transpose the provision of Article 7 (1) of Directive 2008/95/EC into national trademark laws and the provision of Article 13 (1) of Regulation (EC) 207/2009 contain mandatory rules of law. This is because, as the Court has stressed, agreements between individuals can, under no circumstances, derogate from the mandatory provisions on free movement of goods of the EC Treaty (now Articles 34–36 of the TFEU) and the provisions that express those provisions in EU secondary law.[346] The proprietor of a national or Community trademark in a Member State cannot invoke his right, in order to prohibit the use of the trademark with regard to a good that has been put on the market by himself or with his consent in another EEA Member State (or in another EU Member State, in the Court's view, if the good bears a Community trademark).[347] The legal effect of the national provisions on exhaustion of the trademark rights and of the provision of Article 13 (1) of Regulation (EC) 207/2009 is, in other words, the exhaustion of all the rights conferred by the trademark on the proprietor of a (national or Community, respectively) trademark, in accordance with Articles 5 of Directive 2008/95/EC and 9 of Regulation (EC) 207/2009, respectively, even if there is an agreement on the basis of which the proprietor retains the power to control further commercialisation of goods that have been put on the market in the EEA (or in the EU, in the Court's view, as far as goods bearing a Community trademark are concerned) by him or with his consent, in the sense that he may prohibit it or make it dependent on compliance with any established contractual obligations (e.g., price, territorial or customer restrictions). On the other hand, if one of the conditions of Articles 7 (1) of Directive 2008/95/EC or 13 (1) of Regulation (EC) 207/2009 is not met, i.e. if an independent trader imports and

[345] See *infra* Sect. 10.5.2.2.

[346] Cf., with regard to the principle of Community-wide exhaustion of the rights conferred by the trademark, developed under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), Case C-58/80, *Dansk Supermarked A/S v A/S Imerco*, [1981] ECR 181, para. 17.

[347] See Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, para. 67. An opposite view is expressed in this book as regards goods put on the market under Community trademarks (see *supra* Sect. 9.4.1).

distributes in a Member State a good that has not been put on the market in the EEA (or in the EU, in the Court's view, if the good bears a Community trademark)[348] or has not been put on the market by the trademark proprietor or with his consent or has been put on the market under no trademark, the proprietor may oppose the use of his trademark, pursuant to the rules enshrined in Articles 5 of Directive 2008/95/EC or 9 of Regulation (EC) 207/2009, since there is a case of violation of those provisions.[349]

In particular, pursuant to Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation 207/2009/EC, the proprietor of a national or a Community trademark cannot preclude a third party from using the trademark in relation to a good (item of a product) bearing the trademark that has been put on the market in the EEA (or in the EU, in the Court's view, if the good bears a Community trademark) by the proprietor or with his consent in the following forms.

a) using the trademark in marketing the good[350]
   As already deduced from the doctrine of specific subject matter of the exclusive right flowing from the trademark, i.e. the rationale of the principle of Community-wide exhaustion of trademark rights, the proprietor of a national or a Community trademark may control only the first marketing of a good bearing the trademark in the EEA.[351] The proprietor of a national or a Community trademark may, in other words, control the use of the trademark as regards a specific good until the good is put on the market by the proprietor or with his consent. After the good has been put on the market by the proprietor or with his consent, the proprietor cannot, at least in principle, preclude a third party from offering the good or putting it on the market or stocking it for these purposes.[352] The good may, at least in principle, be put freely on the market, namely it may be freely resold, in any Member State, even in contravention of any restrictions (e.g., price, territorial or customer) included in the contract for the first putting on the market of the good with regard to the possibility of reselling the good. Such contravention may only give rise to contractual claim for damages in favour of the trademark proprietor and only to the extent that the previously

[348] See *supra* n. 347.

[349] See, with regard to Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], Case C-449/09, *Canon Kabushiki Kaisha v IPN Bulgaria OOD*, [2010] ECR I-10835 and, with regard to Articles 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009], Case C-324/09, n. 347 above, para. 67.

[350] See, typically, Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v Paranova A/S (C-436/93),* [1996] ECR I-3457, para. 34.

[351] Cf. the definition of the specific subject matter of the exclusive right flowing from the trademark given by the ECJ in Case C-16/74, *Centrafarm BV and Adriaan de Peijper v Winthrop BV*, [1974] ECR 1183, para. 8. See in detail, *supra* Sect. 7.3.3.1.

[352] See *supra* Sect. 9.3.

mentioned restrictions are considered to be legal under EU competition law (Articles 101–102 TFEU).[353]

b) using the trademark in advertising[354]
Among the legal consequences of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 is also that an independent trader may use the trademark of a good put on the market within the EEA (or within the EU, in the Court's view, if the good bears a Community trademark) also in advertising the good. As has been stated by the Court, if the right to make use of a trademark in order to attract attention to further commercialisation were not exhausted in the same way as the right of resale, the latter would be made considerably more difficult and the purpose of the exhaustion of rights rule enshrined in Article 7 (1) of Directive 2008/95/EC would thus be undermined.[355] However, in the light of the doctrine of specific subject matter of the exclusive right flowing from the trademark, the proprietor of a trademark may oppose the use of the trademark in the advertising carried out by an independent trader (parallel importer or independent reseller) in cases where the said use entails a serious (not whatever) damage or the risk of a serious damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark.[356] This is valid, indeed, regardless of whether a risk of confusion as to the origin of the goods offered for sale by the independent trader exists, i.e. regardless of whether the origin function of the trademark is impaired. Thus, as it will be explained in detail below in the next chapter, the aforesaid cases fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009, which provide for the exclusion of the applicability of the rule on exhaustion of the rights conferred by the national trademark and the Community trademark, respectively.[357]

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[353] Cf. Baumbach and Hefermehl (1985), § 15 WZG, p. 668, Nr. 46; Fezer (2009), § 24 MarkenG, p. 1628, Nr. 14, while, from German case law, see RGZ 50, 229—*Kölnisch Wasser*; RGZ 51, 263—*Mariani;* RGZ 103, 359—*Singer (I).* Cf. also Antonopoulos (2005), p. 477, Nr. 591 in relation to the provision regarding the exhaustion of rights in the Greek trademark law [Article 20 (3), subparagraph 1 of Law 2239/1994]; Marinos (1996), p. 234, Nr. 37.

[354] Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, [1997] ECR I-6013, para. 36; Case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v Ronald Karel Deenik*, [1999] ECR I-905, para. 48.

[355] Case C-337/95, n. 354 above, para. 37. The Court highlighted the freedom of independent traders to use the trademarks of the parallel imported goods in advertising. See Case C-373/90, *Criminal proceedings against X*, [1992] ECR I-131, para. 12; Case C-44/01, *Pippig Augenoptik GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH and Verlassenschaft nach dem verstorbenen Franz Josef Hartlauer,* [2003] ECR I-3095, para. 63.

[356] See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Advertising Function of the Trademark".

[357] See *infra* Sect. 10.3.2.

c) (Re-)affixing the trademark to the good under certain circumstances[358]
According to what was said in Chap. 7, the specific subject matter of the exclusive right flowing from the trademark includes the right to affix the trademark to a good. More precisely, both the right to affix a trademark to a good and the right to reaffix a trademark to a good are included in that subject matter. The rules laid down in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 do not pertain definitely to goods put on the market under no trademark. In addition, the aforesaid rules are not applicable, in principle, in the light of the Court's case law, to repackaged products to which the trademark has been reaffixed without the trademark proprietor's authorisation.[359] Finally, the provisions of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 are not applicable, in principle, to parallel imported products where the trademark under which the products were put on the market has been replaced without the trademark proprietor's authorisation with the trademark used for the authorised distribution of the same products in the market of the Member State of importation.[360]

However, as deduced from the case law of the Court regarding the legality of parallel imports of pharmaceuticals and luxury products, the proprietor of a national or a Community trademark cannot oppose the use of the trademark with regard to goods that have been repackaged in new packaging to which the trademark has been reaffixed, without the proprietor's consent,[361] or with regard to goods whose original trademark has been replaced by the trademark used for the authorised distribution of the same goods in the market of the importing Member State,[362] as long as certain conditions apply cumulatively. The analysis of those conditions will be made in the next chapter of this Part, i.e. when examining the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation 207/2009/EC.[363]

[358] Joined Cases C-427/93, C-429/93 and C-436/93, n. 350 above, paras 34–37; Case C-379/97, *Pharmacia & Upjohn SA v Paranova A/S*, [1999] ECR I-6927.

[359] See *infra* sections "Replacing the Packaging and Changing the Appearance or Contents of the Outer Packaging of Pharmaceutical Products Imported in Parallel", "Affixing a New Label to the Original Packaging—Adding New Instructions for Use or Information to the Original Packaging—Replacing the Additional Article Included in the Original Packaging of Pharmaceutical Products Imported in Parallel", and "Repackaging and Parallel Imports of Other Categories of Trade-Marked Products". Cf. also *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark", in relation to the doctrine of specific subject matter of the exclusive right flowing from the trademark.

[360] See *infra* section "Replacement of the Trademark and Parallel Imports of Pharmaceuticals and Other Trademarked Products". Cf. also *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark", in relation to the doctrine of specific subject matter of the exclusive right flowing from the trademark.

[361] See Joined Cases C-427/93, C-429/93 and C-436/93, n. 350 above, paras 34–37.

[362] See Case C-379/97, n. 358 above.

[363] See *infra* Sect. 10.2.2.5.

9.6.2 Application of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to Goods Put on the Market Outside the EEA by Virtue of International Agreements or by the National Court

9.6.2.1 Introduction

As deduced from the preparatory works for Directive 89/104/EEC and Regulation (EC) 40/94, the Commission of the European Communities (currently the European Commission) acknowledged that the Community (now European Union) may extend, by virtue of bilateral or multilateral Agreements, the exhaustion of the rights conferred by the national trademark and the Community trademark to goods put on the market in non-EC Member States and, moreover, that the national courts of the Member States may decide in favour of the legality of parallel imports from non-EC Member States in cases of a special nature, in particular where, even in the absence of a formal agreement, reciprocity is guaranteed.[364] Within the framework of this section, the previously mentioned possibilities of derogation in favour of international exhaustion of trademark rights will be considered so that the question as to whether the preparatory work for Directive 89/104/EEC and Regulation (EC) 40/94 leaves room for a real opening up of the EU market to parallel imports of trademarked products from non-EU Member States is answered.

9.6.2.2 Extension of the Exhaustion of the Rights Conferred by the National Trademark and the Community Trademark to Goods Put on the Market Outside the EU by Virtue of International Agreements

To extend the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to goods that have been put on the market outside the EU pursuant to an International Agreement concluded between the European Union and a third country is a self-evident, in principle, possibility, which stems exactly from the EU's capacity as a subject of international law.[365] Such a possibility has been confirmed expressly by the ECJ, with respect to the national trademark, in the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*.[366] Besides, prior to the delivery of that judgment, the Community (now EU) had already extended the exhaustion of the rights conferred by the national trademark and the Community trademark to goods put

[364] See *supra* Sect. 9.4.5.4.

[365] Cf. Rasmussen (1995), pp. 176–177.

[366] Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, [1998] ECR I-4799, para. 30.

on the market in the EFTA/EEA Member States, by concluding an International Agreement with the latter [see Articles 65(2) of the EEA Agreement and 2 (1) of Protocol 28 to the EEA Agreement].[367] However, although there is no doubt that that possibility exists, an issue is raised as to whether the possibility in question is compatible with the WTO Agreement (GATT/WTO Law), to which the European Union is a Contracting Party.

According to a view, an extension—by virtue of bilateral or multilateral Agreements—of the rules enshrined in Articles 7 (1) of Directive 89/104/EEC and 13 (1) of Regulation (EC) 40/94 to goods put on the market outside the EEA is in conflict with the principle of the most-favoured-nation treatment introduced by Article 4 of the TRIPs Agreement, which applies, as expressly stated by Article 6 of the TRIPs Agreement, in assessing the compatibility of the exhaustion of an intellectual property regime adopted by a Contracting Party with the TRIPs Agreement. This is because such an extension would mean that trademark proprietors would no longer have the right to exclude parallel imports from third countries (outside the EU), and, therefore, such an extension could not be classified as an "advantage, favour, privilege or immunity", for the purposes of Article 4 of the TRIPs Agreement. In the light of this view, the assessment of a condition as an "advantage, favour, privilege or immunity", for the purposes of Article 4 of the TRIPs Agreement, should be made only on the basis of promoting the protection of trademark proprietors, taking into account that the TRIPs Agreement aims at strengthening intellectual property rights protection.[368]

To the above view, however, one could object rightly that the TRIPs Agreement aims, indeed, at strengthening intellectual property rights protection and enforcement, but such strenghtening should be assessed not only from the point of view of intellectual property rights holders but also from the point of view of intellectual property rights users (cf. Article 7 of TRIPs Agreement[369]).[370] In this spirit, a regime of international exhaustion of trademark rights could be possibly assessed as an "advantage, favour, privilege or immunity" from the perspective of the users of trademark rights, including mostly traders and consumers of trademarked goods imported in parallel. Moreover, the above view overlooks the fact that, for the purposes of the principle of the most-favoured-nation treatment introduced by Article I of the GATT 1994, only measures that lead to the elimination of trade restrictions may fall within the meaning of "advantages, favours, privileges or immunities".[371] In addition, it is submitted that it follows even from the Preamble to the TRIPs Agreement that the purpose of that Agreement encompasses not only

[367] See *supra* Sect. 9.4.1.

[368] So also Sack (1998), p. 563; Wichard (1997), p. 714.

[369] According to Article 7 of the TRIPs Agreement, the protection and enforcement of intellectual property rights should contribute to the promotion of interests of both holders of intellectual property rights and users of such rights.

[370] So also Freytag (2001), p. 172.

[371] So also Freytag (2001), p. 172.

the promotion of intellectual property rights protection and enforcement but also the reduction of distortions and impediments to international trade. It is worth noting, indeed, that the Preamble to the TRIPs Agreement indirectly recognises that in pursuing to reduce distortions and impediments to international trade, the fundamental principles of the GATT 1994 should be taken into account, amongst which the principle established in Article I of the aforesaid Agreement is of course included.[372]

Based on the foregoing considerations, an extension of the exhaustion of the rights conferred by the national trademark and the Community trademark to goods put on the market outside the EU by virtue of an International bilateral or multilateral Agreement is compatible with Article 4 of the TRIPs Agreement.[373] However, such an Agreement must—in the light of Article XXIV of the GATT 1994—establish between the EU and a third country/third countries a customs union or a free trade area. That is to say, an extension of the exhaustion of national and Community trademark rights to goods put on the market in a third country may be pursued only under the conditions of Article XXIV of the GATT 1994, i.e. on the basis of an International Agreement establishing a customs union or a free trade area between the EU and the third country, in the same way as the principle of EU-wide exhaustion of national and Community trademark rights may have sufficient support in that Article. The extension, thus, of the rules contained in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to goods put on the market in the EFTA/EEA Member States is not in conflict with Article XXIV of the GATT 1994, given that the EEA Agreement establishes a (sui generis) free trade area.

9.6.2.3 Extension of the Exhaustion of the Rights Conferred by the National Trademark and the Community Trademark to Goods Put on the Market Outside the EU by the National Court

If extending the exhaustion of the rights conferred by the national trademark and the Community trademark to goods put on the market outside the EU by virtue of International Agreements establishing customs unions or free trade areas between the EU and third countries is a self-evident possibility, even without referring to the preparatory work for Directive 89/104/EEC and Regulation (EC) 40/94, an issue arises with regard to the validity of the second possibility of derogation in favour of international exhaustion of national and Community trademark rights, deduced from the aforementioned work, especially after the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*. In that judgment, the ECJ referred expressly to the possibility of extending the rule established in Article 7 (1) of

[372] So also Freytag (2001), p. 172.
[373] So also Freytag (2001), p. 172–173.

Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] to goods put on the market in a third country (outside the EU) by virtue of an International Agreement concluded between the EU and the third country. However, the ECJ did not mention the possibility of extending the previously mentioned rule by the national courts in cases of a special nature.

According to a view, despite the fact that the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* does not refer to the second possibility of derogation in favour of international exhaustion of national and Community trademark rights, deduced from the travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94, the validity of that possibility should be taken for granted, at least until there is a contrary ruling by the Court.[374] To support this view, it has been argued, firstly, that the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* aimed at presenting the Commission's positions on the issue of exhaustion of trademark rights and, secondly, that the possibility in question is more effective than extending the exhaustion of national and Community trademark rights to goods put on the market outside the EU by virtue of International Agreements establishing customs unions or free trade areas between the EU and third countries, given that for the conclusion of such Agreements long-term negotiations are required.[375]

However, the possibility of a national court ruling in favour of international exhaustion of national and Community trademark rights in a case of a special nature was rejected by a national court on the ground that a unilateral acknowledgment of the principle of international exhaustion of trademark rights by a Member State is inconsistent with the concept of the common market.[376]

In this author's opinion, the possibility for the Member States' national courts to extend the rules contained in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to goods put on the market in non-EEA Member States, even in cases of a special nature, cannot be accepted. This is based on the following arguments.

Firstly, the meaning of the phrase "cases of a special nature" may be possibly interpreted differently by the national courts of the Member States; in other words, regarding the same trademarked goods, the national courts of one Member State may accept that there is a case of a special nature that allows for the legality of parallel imports from a third country, whereas the national courts of another Member State may reject that there is such a case. However, a different interpretation of the above-mentioned phrase by the national courts of the Member States means that the same trademarked goods may be put on the market and freely circulate in some Member States, whilst in other Member States they may be prohibited from being put on the market and freely circulating. Such a situation

[374] So also Freytag (2001), pp. 177–178; Krauß (1999), pp. 81–82; Rasmussen (1995), p. 177.

[375] See Freytag (2001), pp. 177–178.

[376] See *Parfums Christian Dior, SA v. Etos, BV* of Hague Court of Appeal (15.02.2000), with note by Gielen (2000).

would, as already analysed, entail a serious risk of rendering Articles 34 and 36 of the TFEU and other provisions of the TFEU related to EU economic policies ineffective.[377]

Secondly, if the possibility of a national court deciding in favour of international exhaustion of trademark rights were to be accepted, then an issue would arise as regards the semantic content of the phrase “cases of a special nature”. It follows from the Commission’s reference to cases “where reciprocity is guaranteed” that “cases of a special nature” where a derogation in favour of international exhaustion of trademark rights may be accepted could be considered to be cases in which third countries, even if they do not recognise the legality of parallel imports of trademarked goods originating in EU Member States, nevertheless confer another advantage on undertakings operating in the EU market in order to avoid discrimination against those undertakings. However, even this criterion seems rather vague, given that a consideration of a measure as an “advantage” for undertakings not established in the country where that measure applies needs to take into account many factors. On the other hand, the criterion of reciprocity, which is mentioned by the Commission as an instrument to define the phrase “cases of a special nature”, looks also quite complicated. For example, a question is raised as to whether, for “a case where reciprocity is guaranteed” to be found, it is sufficient that the national courts of a third country recognise the legality of parallel imports of goods put on the market in the EU (substantial reciprocity) or whether it is required that the legislation of a third country provides expressly for the legality of parallel imports of goods put on the market in the EU (formal reciprocity).[378] If the substantial reciprocity were also to be accepted, this would mean that national judges would have to be aware of the case law of the courts of third countries. However, two factors would significantly hinder national judges from being aware of the case law of the courts of third countries, namely, firstly, the real difficulties in accessing the case law of third countries’ courts[379] and, secondly, the fact that the courts of many countries have not given decisions on the issue of the legality of parallel imports of trademarked goods.[380] It is typically noted that the courts of China, which is currently the second major trade partner of the EU, have not yet taken a position with regard to the issue of the legality of parallel imports of trademarked goods from non-EU Member States.

Thirdly, the possibility of a national court judging in favour of international exhaustion of trademark rights results in legal uncertainty, since, firstly, according to the Commission’s Explanatory Memoranda to Articles 11 of “Amended Proposal for a Council Regulation on the Community trade mark” (1984) and Article 6 of the “Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks” (1985), the national court is not obliged to

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[377] See *supra* Sects. 9.4.5.8 and 9.4.5.9.

[378] See also Mulch (2001), p. 120.

[379] Cf. also Rasmussen (1995), p. 178.

[380] See also Mulch (2001), p. 120.

but may apply the doctrine of exhaustion of trademark rights to goods put on the market outside the EU in cases of a special nature and, secondly, if the condition of reciprocity or the advantage on the basis of which the national court of a Member State accepted the legality of parallel imports of trademarked goods originating in a third country loses its validity, the national court has to change its case law.[381]

In the light of the foregoing considerations, the ECJ consciously—in this author's view—omitted, in the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft,* to mention the possibility of a national court extending the rule enshrined in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] to goods put on the market outside the EEA. In contrast to a derogation in favour of international exhaustion of the rights conferred by the national trademark and the Community trademark by virtue of International Agreements establishing customs unions or free trade areas between the EU and third countries, an extension of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 to goods put on the market outside the EEA by the national courts of a Member State would, firstly, be valid not in all but only in that Member State; secondly, it would depend on whether the nationals courts are able to find out if third countries recognise the legality of parallel imports of trademarked goods originating in the EU market or, at least, confer on undertakings established in the EU market an "advantage" that avoids discrimination against those undertakings; and, thirdly, it would result in legal uncertainty with respect to an issue of particular relevance to the EU commercial policy vis-à-vis non-EEA Member States, i.e. the issue of the legality of parallel imports of trademarked goods from non-EEA countries.

9.6.2.4 Remarks

In the light of the applicable law, therefore, the EU member states may recognise and are obliged to recognise a doctrine of exhaustion of the rights conferred by national and Community trademarks in relation to trademarked goods put on the market in a third country (outside the European Union) only if an International Agreement between the EU and the third country has been concluded in that sphere. The rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 have already been extended to goods put on the market in the EEA/EFTA Member States by virtue of the EEA Agreement, as it has on several occasions been stated.

[381] See also Mulch (2001), p. 121.

9.6.3 Prohibition of International Exhaustion of Trademark Rights and Competition Law (Articles 101–102 of the TFEU)

9.6.3.1 The Problem

According to what has been said in a previous section of this chapter, the proprietor of a national or Community trademark in a Member State may prohibit parallel imports of goods bearing the trademark that have been not put on the market by the proprietor or with his consent in an EEA Member State.[382] A question, however, is raised as to whether the proprietor of a national or Community trademark may prohibit parallel imports from non-EEA Member States even in cases in which such a prohibition is incompatible with EU competition law, namely Articles 101 or 102 of the TFEU. Advocate General Jacobs answered to that question in the negative in his Opinion in the case in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* by pointing out that a prohibition of the principle of international exhaustion of trademark rights does not limit the possible application of the competition rules of the EC Treaty (now TFEU).[383] Although, the question of how to resolve a potential conflict between Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, on one hand, and Articles 101 and 102 of the TFEU, on the other, namely between prohibition of international exhaustion of trademark rights and EU competition law, was not addressed by the ECJ in the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft,* an answer to that question has been provided, as far as Article 101 of the TFEU is concerned, by the Court in the judgment in *Javico v. Yves Saint Laurent Parfums* and, as far as Article 102 of the TFEU is concerned, by the Court of First Instance of European Communities (now General Court[384]) in the judgment in *Micro Leader v. Commission*. Then, follows a more detailed discussion.

9.6.3.2 Prohibition of International Exhaustion of Trademark Rights and Article 101 of the TFEU: The Judgment in *Javico v. Yves Saint Laurent Parfums*

A little time prior to the delivery of the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, the Court opened the way for a ruling against the legality of international exhaustion of national trademark rights through

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[382] See *supra* Sect. 9.4.

[383] See Opinion of Advocate General Jacobs in Case C-355/96, n. 366 above, point 53.

[384] See Article 19 (1) of the TEU, as amended by the Lisbon Treaty (officially entitled “the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community”).

its judgment in *Javico v. Yves Saint Laurent Parfums*.[385] The facts in the *Javico v. Yves Saint Laurent Parfums* case were similar to the ones in the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* case, i.e. the central issue in the *Javico v. Yves Saint Laurent Parfums* case was also the legality of excluding parallel imports of trademarked goods from outside the EEA. However, the difference between the two cases was that, in the *Javico v. Yves Saint Laurent Parfums* case, the exclusion of the contested parallel importation was attempted by reference to contractual terms providing absolute territorial protection to the affected selective distribution network, whilst, in the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* case, the exclusion of the contested parallel importation was attempted unilaterally by the trademark proprietor. Specifically, in the *Javico v. Yves Saint Laurent Parfums* case, the first question referred to the Court for a preliminary ruling was whether Article 85 of the EEC Treaty (now Article 101 of the TFEU) precludes a supplier established in a Member State from prohibiting a distributor established in another Member State to which it entrusts the distribution of its products in a territory outside the Community (now the EU) from making any sales in a territory other than the contractual territory, including the territory of the Community (now the EU), either by means of direct sales or by means of re-exportation from the contractual territory.[386] In other words, in the *Javico v. Yves Saint Laurent Parfums* case, the issue in question concerned the legality of the prohibition of a parallel importation of trademarked goods in the light of Article 85 of the EEC Treaty (now Article 101 of the TFEU), whereas, in the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* case, the issue in question concerned, as explained in the relevant section above, the legality of the prohibition of a parallel importation of trademarked goods under Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], which expresses the provision of Article 28 of the EC Treaty (now Article 34 of the TFEU) in EU law on national trademarks.

To answer the above question, the Court pointed out, first of all, in the light of its up to that time settled case law, that in order for the Court to determine whether an agreement that entails a ban on supplies falls within the prohibition laid down by the provision of Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU], it is necessary to consider whether the purpose or effect of the ban is to restrict to an appreciable extent competition within the common market and whether the ban may affect trade between Member States.[387] However, in its subsequent reasoning, the Court followed different approaches depending on whether the territory where the distributor sells, in breach of the ban on supplies set out by his supplier, is within or outside the Community (now the EU).

[385] Case C-306/96, *Javico International and Javico AG v Yves Saint Laurent Parfums SA (YSLP)*, [1998] ECR I-1983.

[386] Case C-306/96, n. 385 above, para. 10.

[387] Case C-306/96, n. 385 above, para. 12.

In particular, as regards the case where the distributor sells outside the contractual territory but within the Community (now the EU), the Court confirmed its up to that time case law, by accepting that clauses/agreements that allow authorised distributors to exclude intra-Community parallel trade, by providing absolute territorial protection to them, constitute by their very nature a restriction of competition and fall within the scope of Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU], if they are capable of affecting trade between Member States.[388] As regards, however, the case where the distributor makes sales in a territory other than the contractual one but outside the Community (now the EU), the Court accepted that such clauses/agreements must be construed not as being intended to exclude parallel imports and marketing of the contractual product within the Community (now the EU) but as being designed to enable the producer to penetrate a market outside the Community (now the EU) by supplying a sufficient quantity of contractual products to that market.[389] Therefore, in the Court's view, the agreements in question do not constitute agreements that by their nature restrict competition and fall within the scope of Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU],[390] unless, in the view of the national judge, they entail the prevention, restriction, or distortion of competition within the common market, by taking account of their economic and legal context.[391] In that regard, it is first necessary to determine whether the structure of the Community market in the relevant products is oligopolistic, allowing only limited competition within the Community network for the distribution of those products.[392] It must then be established whether there is an appreciable difference between the prices of the contractual products charged in the Community (now the EU) and those charged outside the Community (now the EU). Such a difference is not, however, in the Court's view, liable to affect competition if it is eroded by the level of customs duties and transport costs resulting from the export of the product to a non-member country followed by its reimport into the Community (now the EU).[393] Finally, the ECJ concluded that, even if, after taking account of the aforesaid parameters, the conclusion of the national judge is that the agreements at issue restrict competition within the Community (now the EU), in order to subject them to Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU], it is necessary to determine whether they entail any risk of an appreciable effect on the pattern of trade between the Member States such as to undermine attainment of the objectives of the common market.[394] As the Court observed, intra-Community trade cannot be appreciably affected if the products intended for markets outside

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[388] Case C-306/96, n. 385 above, paras 13–17.

[389] Case C-306/96, n. 385 above, para. 19.

[390] Case C-306/96, n. 385 above, paras 20–21.

[391] Case C-306/96, n. 385 above, para. 22.

[392] Case C-306/96, n. 385 above, para. 23.

[393] Case C-306/96, n. 385 above, para. 24.

[394] Case C-306/96, n. 385 above, para. 25.

the Community (now the EU) account for only a very small percentage of the total market for those products in the territory of the common market.[395]

From the foregoing reasoning, it follows that the ECJ approaches differently the issue of the legality of contractual clauses intended to exclude parallel trade, depending on whether that trade is carried out between Member states of the European Union or between a third country and an EU Member State. In particular, in the light of the judgment in *Javico v. Yves Saint Laurent Parfums,* prohibitions of parallel imports of trademarked goods between Member States fall, normally, within the scope of Article 101 (1) of the TFEU, unless they are not capable of affecting trade between Member States. On the contrary, prohibitions of parallel imports of trademarked goods from outside the EEA to EU Member States are, normally, not subject to Article 101 (1) of the TFEU, unless this is inferred, in the view of the national court, from the economic and legal context of each individual case. One could argue, thus, that, in the ECJ's view, trademark proprietors may, as a rule, prohibit parallel imports of trademarked goods that have not been put on the market in the EEA by them or with their consent under Article 101 (1) of the TFEU. The exact opposite is the case in regard to parallel imports of trademarked goods that have been put on the market in the EEA by trademark proprietors or with their consent. These findings may be construed as a confirmation of the prohibition of the principle of international exhaustion of trademark rights in the light of EU competition law. Thus, the judgment in *Javico v. Yves Saint Laurent Parfums* paved in fact the way for the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, by treating parallel imports of trademarked goods that had been put on the market outside the EEA by the proprietor of the trademark borne by the goods or with the latter's consent less favourably than parallel imports of trademarked goods that had been put on the market in the EEA by the proprietor of the trademark borne by the goods or with the latter's consent in the light of Article 85 (1) of the EEC Treaty [now Article 101(1) of the TFEU].

Nevertheless, even if, on the basis of the statements made by the Court in the *Javico v. Yves Saint Laurent Parfums* judgment, the possibility for a parallel import of trademarked goods originating in a non-EEA Member State to be deemed to fall within the prohibition laid down in Article 101 (1) of the TFEU looks quite distant, the provision of Article 101 (1) of the TFEU must take precedence over Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 where a conflict between Article 101 (1) of the TFEU and Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009 arises. This means that the proprietor of a national or a Community trademark cannot invoke his right to exclude parallel imports from a non-EEA Member State, as long as it is found that such exclusion is not compatible with Article 101 (1) of the TFEU. In favour of such a position are the two following factors: firstly, the fact that EU primary law is superior to EU secondary law, i.e. the fact that Article 101 of the TFEU is superior to Articles 7 (1) of Directive 2008/94/EC and 13 (1) of Regulation (EC) 207/2009;

[395] Case C-306/96, n. 385 above, para. 26.

secondly, the observation that the limitation of the geographical scope of exhaustion of the rights conferred by the national trademark and the Community trademark to the territory of the EEA is not imposed by Articles 34 and 36 of the TFEU, which are expressed by the aforesaid provisions in EU law on trademarks, so that there is no issue of conflict between Articles 34 and 36 of the TFEU, on one hand, and Article 101 of the TFEU, on the other.

9.6.3.3 Prohibition of International Exhaustion of Trademark Rights and Article 102 TFEU: The Judgment in *Micro Leader v. Commission*

As far as Article 102 of the TFEU is concerned, it should first of all be stated that there has been, to date, no judgment of the Court dealing with the possibility for the exercise of a trademark right to prohibit a parallel importation from a non-EEA Member State to constitute abuse of the dominant position held by the trademark proprietor in the EU's internal market or in a substantial part of it. However, it follows from a judgment of the Court of First Instance in a case where the issue in question was the legality of a prohibition on importing copies of computer programs from a third country (outside the EU) by invoking copyright that that possibility should be probably treated on the basis of the formulations contained in the *Javico v. Yves Saint Laurent Parfums* judgment.

In particular, in the judgment in *Micro Leader v. Commission*,[396] the Court of the First Instance accepted that, even though the enforcement of copyright by its holder with a view to prohibiting a parallel importation from outside the Community into a Member State of the Community is not in itself a breach of Article 86 of the EEC Treaty (now Article 102 of the TFEU), such enforcement may, in exceptional circumstances, involve abuse of the dominant position of the right holder.[397] By this ruling, the Court of First Instance differentiated from the Commission of the European Communities' (now European Commission) approach, according to which the enforcement of copyright by its holder with a view to prohibiting a parallel importation from outside the Community into a Member State of the Community could under no circumstances constitute abusive conduct within the meaning of Article 86 of the EEC Treaty (now Article 102 of the TFEU), as such enforcement was compatible with Article 4 (c) of Directive 91/250/EEC, which introduced the principle of Community-wide exhaustion of the right to distribute copies of computer programs.[398] The alignment of the above ruling with the reasoning of the judgment in *Javico v. Yves Saint Laurent Parfums* is obvious,

[396] Case T-198/98, *Micro Leader Business v Commission of the European Communities*, [1999] ECR II-3989.

[397] Case T-198/98, n. 396 above, para. 56.

[398] Case T-198/98, n. 396 above, para. 51. Nowadays, the exhaustion of the right to distribute a copy of a computer program is regulated in Article 4 (2) of Directive 2009/24/EC.

despite the fact that the latter judgment is nowhere referred to in the text of the judgment in *Micro Leader v. Commission.* A legal, in principle, exercise of an intellectual property right with the aim of excluding parallel imports of goods protected by that right but not put on the market in the EU by the right holder or with his consent may, in exceptional circumstances, constitute abuse of the dominant position held by the right holder in the market of the Community or in a substantial part of it.

In the light of the judgment in *Micro Leader v. Commission,* trademark proprietors may, as a rule, prohibit parallel imports of trademarked goods that have not been put on the market in the EEA by them or with their consent under Article 102 of the TFEU. The exact opposite is the case in regard to parallel imports of trademarked goods that have been put on the market in the EEA by trademark proprietors or with their consent. Despite the fact that the result of the above-mentioned judgment undermines, as has been pointed out, the result of the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft,* in the meaning that it introduces the principle of international exhaustion of rights "from the back door", even in exceptional circumstances,[399] such a result should nonetheless be welcomed in this author's opinion. More specifically, in case of a conflict between the provisions of Articles 102 of the TFEU and Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009, the provision of Article 102 of the TFEU must take precedence, as has been also accepted previously in relation to Article 101 of the TFEU. In favour of this position are, in accordance with what it was said regarding Article 101 of the TFEU, the two following factors: firstly, the fact that EU primary law is superior to EU secondary law, i.e. the fact that Article 102 of the TFEU is superior to Articles 7 (1) of Directive 2008/94/EC and 13 (1) of Regulation (EC) 207/2009, and, secondly, the observation that the limitation of the geographical scope of exhaustion of the rights conferred by the national trademark and the Community trademark to the territory of the EEA is not imposed by Articles 34 and 36 of the TFEU, which are expressed by the aforesaid provisions in EU law on trademarks, so that there is no issue of conflict between Articles 34 and 36 of the TFEU, on one hand, and Article 102 of the TFEU, on the other.

9.6.3.4 Remarks

In the light of the case law of the Court and the General Court, the limitation of the exhaustion of the rights conferred by the national trademark and the Community trademark to goods put on the market in the EU by the trademark proprietor or with his consent is subordinate to Articles 101 and 102 of the TFEU, where it is found that the prohibition of a parallel importation of goods bearing a national or a Community trademark falls within the scope of those Articles.

[399] Keeling (2003), p. 401.

9.6.4 The Burden of Proof

9.6.4.1 The Problem

As it has been stated on several occasions, in the judgment in *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*, the Court decided that the EU Member States cannot recognise a regime of international exhaustion of the rights conferred by the national trademark. This ruling was confirmed in the subsequent case law of the ECJ, in particular in the judgments in *Sebago and Maison Dubois* and in *Zino Davidoff and Levi Strauss*. However, none of the aforesaid judgments refers to the issue of allocating the burden of proof in cases involving the legality of parallel imports of trademarked goods, with the exception of the observation made by the ECJ in the judgment in *Zino Davidoff and Levi Strauss* that the consent within the meaning of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] must be proved by the trader alleging it. Directive 2008/95/EC and Regulation (EC) 207/2009 do not take a position on that issue, despite its indisputable importance, either. An explanation for this could be that the allocation of the burden of proof should stay within the competence of the Member States as a matter of a procedural nature. However, it is also true that a strict application of national procedural rules on the allocation of the burden of proof in cases involving the legality of parallel imports of trademarked goods may, in some cases, render Articles 7 (1) of Directive 2008/95/EC, 13 (1) of Regulation (EC) 207/2009 and, by extension, Articles 34 and 36 of the TFEU, which are expressed by the aforesaid provisions in EU trademark law, ineffective. The position that the allocation of the burden of proof in cases involving the legality of parallel trade in trademarked goods should not result in unduly burdening such trade between Member States, even if such allocation is dictated by the applicable national procedural rules, was first confirmed by a national court of a Member State (District Court of Amsterdam)[400] and later by the Court in its judgment in *van Doren + Q* case.

9.6.4.2 The Judgment in *van Doren + Q*

The issue at hand in the case in *van Doren + Q*[401] was whether a rule of evidence according to which exhaustion of the trademark right constitutes a plea in defence

[400] More specifically, in *Scarpino v. Basic Trade Mark*, the parallel importer claimed that he had acquired the contested goods from an authorised distributor in Portugal, while the manufacturer said that he had not supplied such large quantities of the goods to that distributor. The District Court of Amsterdam granted an interim injunction on the basis that the parallel importer had not satisfied the burden of proof. However, the Amsterdam Court of Appeal decided that the burden of proof should not be excessive, so as not to prevent legitimate trade within the Community, and therefore overturned the decision of the District Court. See 23 *EIPR* N139 (2001).

[401] Case C-244/00, *Van Doren + Q. GmbH v. Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth,* [2003] ECR I-3051.

for a third party against whom the trademark proprietor brings an action, so that the existence of the conditions for such exhaustion must, as a rule, be proved by the third party that relies on it, is consistent with Articles 5 and 7 of Directive 89/104/EEC (now Articles 5 and 7 of Directive 2008/95/EC) and 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU). More specifically, the dispute was about the determination of the party (exclusive distributor or independent trader) that bears the burden of proving that the parallel imported goods were first put on the market within the EEA by the proprietor of the trademark in the importing Member State or with his consent.

The case was referred to the Court by the German Supreme Court, which, although having ruled that, according to a general principle recognised by German procedure law, each party to proceedings must prove the existence of the conditions for application of the rule on which he relies, the existence of the conditions for exhaustion of the trademark right must be proved by the trader alleging such exhaustion (defendant), expressed doubts about the compatibility of such a result with Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU).

As was probably expected, the Court ruled that the rule of evidence that exhaustion of the trademark right constitutes a plea in defence of a third party against whom the trademark proprietor brings an action, so that the conditions for such exhaustion must, as a rule, be proved by the third party that relies on it, is consistent with Community (now EU) law and, in particular, with Articles 5 and 7 of Directive 89/104/EEC (now Articles 5 and 7 of Directive 2008/95/EC).[402] However, it also pointed out that the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU) may mean that that rule of evidence needs to be qualified.[403] This must be so, in the Court's view, where that rule would allow the proprietor of the trademark to partition national markets and thus assist the maintenance of price differences that may exist between Member States.[404] According to the referring court but also the ECJ, a case where there is a real risk of partinioning of national markets is the case where the trademark proprietor markets his products in the EEA using an exclusive distribution system.[405] This is because, if the third party had, in that case, to adduce evidence of the place where the goods were first put on the market by the trademark proprietor or with his consent, the trademark proprietor could obstruct the marketing of the goods purchased (if the suppliers of the third party did not reveal the previous supplier or identify other links in the distribution chain) and eliminate any possibility of the third party being supplied in future by a member of the exclusive distribution network of the

[402] Case C-244/00, n. 401 above, paras 35–36.
[403] Case C-244/00, n. 401 above, para. 37.
[404] Case C-244/00, n. 401 above, para. 38.
[405] Case C-244/00, n. 401 above, para. 39.

proprietor in the EEA in the event that the third party succeeded in establishing that he had obtained his supplies from that member.[406]

These positions were expressed, obviously, in the light of the principle of procedural autonomy of the Member States, under which the Member States are free—subject to the limits laid down by the Community law—to apply their own principles governing allocation of the burden of proof.[407] In view of the fact that Directive 2008/95/EC and Regulation (EC) 207/2009 do not contain any provision on the allocation of the burden of proof in cases involving the legality of parallel imports of trademarked goods, the Member States must be able to apply to such cases their own principles governing the allocation of the burden of proof, provided that it does not affect negatively the effet utile of Articles 34 and 36 of the TFEU, namely it does not imply a risk of market partitioning among Member States. If the latter is the case, namely the independent trader succeeds in establishing that there is a real risk of partitioning national markets, then if he himself bears the burden of proving that the goods have been put on the market in the EEA by the trademark proprietor or with his consent, the proprietor is the one who must prove that the goods have been initially put on the market by him or with his consent outside the EEA. If he proves that, then it is for the independent trader to prove the existence of the trademark proprietor's consent to subsequent marketing of the goods in the EEA.[408]

9.6.4.3 The Allocation of the Burden of Proof in Cases Where Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009 Applies: An Overview

The judgment in *van Doren + Q* case does not fully examine the issue of the allocation of the burden of proof in cases involving the legality of parallel imports under Articles 7 (1) of Directive 2008/95/EC or 13 (1) of Regulation (EC) 207/2009. However, in the light of the above-mentioned judgment, the judgment in *Zino Davidoff and Levi Strauss*, the Opinion of Advocate General Stix-Hackl in *van Doren + Q* and the judgment in *Dassonville*,[409] to which Advocate General Stix-Hackl refers in her Opinion in *van Doren + Q,* the allocation of the burden of proving the conditions for Union-wide exhaustion of the national trademark and the Community trademark, namely the elements of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009/EC, is as follows:

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[406] Case C-244/00, n. 401 above, para. 40.

[407] Opinion of Advocate General Stix-Hackl in Case C-244/00, n. 401 above, point 53.

[408] Case C-244/00, n. 401 above, para. 41; Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, paras 53–54.

[409] Case C-8/74, *Procureur du Roi v. Benoît and Gustave Dassonville*, [1974] ECR 837.

- The trademark proprietor bears the initial burden of proving the general elements of infringement, i.e. that the parallel importation of goods bearing the trademark infringes his right.
- In reply to the claim of the trademark proprietor on trademark infringement, the independent trader (parallel importer—independent reseller) will have to either:

  a) prove the existence of a positively expressed consent of the trademark proprietor for putting the goods on the market in the EEA where the trademark proprietor challenges only the existence of such consent,[410] or
  b) where the trademark proprietor challenges in general the exhaustion of his right:

     (i) prove that the goods were initially put on the market in the EEA by the trademark proprietor or with his consent, if so required by the applicable national procedural rules[411]; or
     (ii) allege a risk of market partitioning between Member States as a consequence of the fact that he bears the burden of proving that the right flowing from the trademark borne by the goods he sells has been exhausted.[412] In the judgment in *van Doren + Q*, the Court did not specify the facts and circumstances that the independent trader must prove in support of his assertion that if he is the one who bears the burden of proving the conditions for exhaustion of the right flowing from the trademark borne by the goods he sells, there is a real risk of national markets being partitioned. However, in the light of the views expressed in the above-mentioned judgment and in the Opinion of Advocate General Stix-Hackl in *van Doren + Q*, a real risk of partitioning of national markets will exist in the following cases:

        aa) where it is impossible or excessively difficult for the independent trader to prove exhaustion of the trademark right.[413] Despite the fact that this case does not follow at least directly from the judgment in *van Doren + Q*, its existence was nonetheless acknowledged by the ECJ in its judgment in *Dassonville*.[414] According to the latter judgment, the requirement of a Member State of a certificate of authenticity, which is less easily obtainable by importers of an authentic product that has been put into free circulation in a regular manner in another Member State than by importers of the same product coming directly from the country of origin, hinders intra-Community trade and, therefore, constitutes a measure having an effect equivalent to a

[410] Joined Cases C-414/99 to C-416/99, n. 408 above, paras 53–54.

[411] Case C-244/00, n. 401 above, paras 35–36.

[412] Case C-244/00, n. 401 above, para. 38.

[413] Opinion of Advocate General Stix-Hackl in Case C-244/00, n. 401 above, points 82 and 101.

[414] Cf., however, a relevant remark by the referring court as expressed by the Court: Case C-244/00, n. 401 above, para. 21.

quantitative restriction as prohibited by Article 30 of the EEC Treaty (now Article 34 of the TFEU).[415] Furthermore, an exclusive dealing agreement may adversely affect trade between Member States and can have the effect of hindering competition if the concessionaire is able to prevent parallel imports from other Member States into the territory covered by the concession by means of the combined effects of the agreement and a national law requiring the exclusive use of a certain means of proof of authenticity[416];

bb) where the trademark proprietor puts products on the market within the EEA through an exclusive distribution system, so there is the possibility of the trademark proprietor acting on the facts revealed by the independent trader in meeting the burden to eliminate the source of supply.[417]

In both the above cases, the independent trader must establish all the following facts and circumstances:

aa) that he purchased the goods he sells within the EEA, so there is a presumption that Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009 applies[418];

bb) that price differences exist for the goods bearing the trademark of the trademark proprietor between the EU Member States, regardless of whether those differences can be justified (e.g., on the basis of a difference of costs of production between Member States), so there is a presumption that the trademark proprietor tries, by prohibiting the parallel importation, to maintain those differences[419];

cc) that there is no clear difference between the goods bearing the trademark of the trademark proprietor sold within and outside of the market of the EEA if the trademark proprietor argues that the independent trader ought to have known, based on the nature or the particular marking of the goods he sells, that the goods he sells were not intended to be marketed in the EEA.[420]

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[415] Case C-8/74, n. 409 above, paras 5–9.

[416] Case C-8/74, n. 409 above, para. 12.

[417] Case C-244/00, n. 401 above, paras 39–40.

[418] See, as regards the first case of a real risk of market partitioning, Case C-8/74, n. 409 above, para. 9, whereas, as regards the second one, Case C-244/00, n. 401 above, para. 40.

[419] See, as regards the first case of a real risk of market partitioning, Case C-8/74, n. 409 above, para. 14, whereas as regards the second one Case C-244/00, n. 401 above, para. 38.

[420] Unlike the referring court and Advocate General Stix-Hackl, the ECJ did not deal with the possibility of the nature or a particular marking of the parallel imported goods indicating that there is no consent on the part of the trademark proprietor for putting the goods on the market in the EEA. However, it is to be reminded that, according to the judgment in *Zino Davidoff and Levi Strauss*, the parallel importer is the one required to prove that the trademark proprietor consented

Moreover, with regard to the first of the above-mentioned cases, the independent trader is required to establish that proving the conditions for exhaustion of the right of the trademark proprietor means providing proof of circumstances on which he can scarcely obtain any information.[421] Such proof will be more difficult, especially in a long distribution chain, where the independent trader will probably only rarely be able to reconstruct the full chain of suppliers.[422] Also, as regards the second of the above-mentioned cases, the independent trader must establish that the proprietor puts his products on the market in the EEA through an exclusive distribution system.[423]

– If the independent trader successfully demonstrates that there is a real risk of partitioning of national markets, the trademark proprietor is the one who has to demonstrate that the goods that are marketed by the independent trader were initially put on the market by the trademark proprietor or with his consent outside the EEA.[424] Even if this position is inconsistent with the applicable national procedural law, its adoption is necessary to ensure the effet utile of Articles 34 and 36 of the TFEU.[425]
– Finally, if the trademark proprietor successfully establishes that the goods that are marketed by the independent trader were initially put on the market by the trademark proprietor or with his consent outside the EEA, the independent trader is the one who has to establish either that the goods, before they were acquired by him, had been put on the market in the EEA by the trademark proprietor or with his consent or that a positively expressed consent of the trademark proprietor for the importation and marketing of the goods in the EEA exists.[426]

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to the marketing of the goods he sells within the EEA. See Joined Cases C-414/99 to 416/99, n. 408 above, paras 53–54.

[421] Cf. Case C-8/74, n. 409 above, para. 6; Opinion of Advocate General Stix-Hackl in Case C-244/00, n. 401 above, point 83.

[422] See Opinion of Advocate General Stix-Hackl in Case C-244/00, n. 401 above, point 83.

[423] Case C-244/00, n. 401 above, para. 39.

[424] Case C-244/00, n. 401 above, para. 41.

[425] Case C-244/00, n. 401 above, para. 42.

[426] Joined Cases C-414/99 to 416/99, n. 408 above, paras 53–54.

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Chapter 10
Legitimate Reasons for Excluding the Application of the Principle of EU-Wide Exhaustion of Trademark Rights: The Provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009/EC

10.1 Introduction: Defining the Scope of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009

As highlighted in Chap. 1, the application of the rule of exhaustion of trademark rights is not accepted without exceptions. On the contrary, as confirmed by the provisions pertaining to exhaustion of rights set out in the various laws on trademarks, the proprietor of a trademark is entitled to oppose the use of the trademark in relation to goods that are genuine and that have been legally put on the market (by the trademark proprietor or with his consent), provided that there exist "legitimate reasons". As such reason is mentioned, indicatively, the fact that the condition of the goods is changed or impaired after they have been put on the market.[1]

EU secondary legislation includes provisions relating to the exclusion of the applicability of the principle of EU-wide exhaustion with regard to both the national trademark and the Community trademark. According to the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, the provisions of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009, respectively, do not apply where there exist "legitimate reasons" for the proprietor to oppose further commercialisation of goods bearing the mark.

It is obvious that the key term for defining the scope of the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 is the term "legitimate reasons". Two versions might be suggested for defining the meaning of that term. According to the first one, the term covers any circumstance justifying prohibitions of parallel imports of trademarked goods, regardless of whether the legal basis for such prohibitions is drawn from trademark law or any other area of

[1] For national or supranational provisions on the exclusion of the applicability of the principle of exhaustion of trademark rights, see collectively Appendix to this book.

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law (e.g., law on unfair competition). According to the second one, the term covers any circumstance justifying prohibitions of parallel imports in the light of trademark law.

From the foregoing versions, the second one seems to be more appropriate. This is confirmed by both the letter of the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 and the systematic connection between paragraph 1 and paragraph 2 of Article 7 of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.

In particular, according to the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, a legitimate reason for excluding the application of the rule of EU-wide exhaustion of trademark rights is present where the condition of the parallel imported goods is changed or impaired after they have been put on the market. That legitimate reason is directly connected with the ECJ's case law relating to the doctrine of specific subject matter of the exclusive right flowing from the trademark. Indeed, in the light of Article 36, subparagraph 1 of the EEC Treaty (now Article 36 subparagraph 1 of the TFEU), the Court, in principle, rejected the legality of parallel imports where the parallel imported products had been repackaged without the authorisation of the trademark proprietor seeking to prohibit the parallel importation (hereinafter: without the authorisation of the trademark proprietor),[2] as well as where the trademark originally borne by the parallel imported goods had been replaced with the one used for the authorised distribution of the same goods in the importing Member State[3] without the authorisation of the trademark proprietor.[4] As it will be shown below, based on the Court's judgments issued after the adoption of Directive 89/104/ECC, any change in the (original) packaging and the replacement of the trademark affixed to the (original) packaging of products imported in parallel are considered to be circumstances justifying, in principle, the non-application of the rule of EU-wide exhaustion of trademark rights under Article 7 (2) of Directive 2008/95/EC, Article 13 (2) of Regulation (EC) 207/2009, and Article 36, subparagraph 1 of the TFEU.

The implicit reference of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 to the ECJ's case law pertaining to the legality of exercising the trademark right under Articles 30 and 36 of the EEC Treaty (now

[2] Where, in the context of the present chapter, the phrase "without the authorisation of the trademark proprietor" is used without any further explanation, the term "trademark proprietor" used in it shall refer to the trademark proprietor seeking to prohibit the parallel importation described in the sentence concerned.

[3] Where, in the context of the present chapter, the term "Member State" is used without any further explanation, that term shall refer to the Member States of the European Union, save if the relevant note exclusively refers to a time prior to the entry into force of the Lisbon Treaty (signed at Lisbon on 13.12.2007 and entered into force on 01.12.2009), where the term in question shall refer to the Member States of the European Community.

[4] See *supra* section "Parallel Imports of Pharmaceutical Products and Protection of Origin Function of the Trademark".

Articles 34 and 36 of the TFEU) indicates indirectly the criterion for defining the scope of the above-mentioned provisions. That criterion is nothing else than the protected functions of trademarks, according to the doctrine of specific subject matter of trademark rights.[5] More specifically, the analysis of the aforesaid doctrine shows that the Court has acknowledged, in the light of Article 36 subparagraph 1 of the EEC Treaty (now 36 subparagraph 1 of the TFEU), the protection of the origin function, as well as the guarantee and advertising functions of trademarks. The protection of the origin function of trademarks has been acknowledged to its fullest extent, i.e. only on condition that there is a likelihood of confusion as to the origin of the goods concerned, which arises, according to the Court's case law, when the guarantee provided by a trademark that any product bearing the trademark has not been subject at a previous stage of marketing to interference by a third person such as to affect the original condition of the product, without the authorisation of the body under the control of which the product has been manufactured, is at risk of being impaired. The protection of the guarantee function of trademarks has been acknowledged only in the context of safeguarding trademarks' origin function, namely the aforesaid function is meant, in the Court's approach, for providing to the consumer (or ultimate user) of a product the guarantee that the quality level and the other characteristics of the product offered to him have not changed after the first putting on the market of the product. Finally, the protection of the advertising function of trademarks has been recognised as protection of the reputation or the distinctive character of a trademark against any trademark use that entails damage or a risk of damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark, regardless of whether the origin function of the trademark is impaired. Besides, the protection of the origin function and the other functions (guarantee and advertising functions) of trademarks has been also acknowledged by EU law on trademarks.[6] Therefore, the aim of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 is to exclude the legality of parallel imports in cases where the commercialisation of the goods imported in parallel implies an adverse effect or a risk of an adverse effect on one of the functions of the trademark borne by the goods under the conditions for protection of those functions defined in the Court's case law.

Moreover, the requirement for a narrow interpretation of the term "legitimate reasons" used in the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 also derives from a systematic connection between paragraph 1 and paragraph 2 of Article 7 of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. In particular, the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009

[5] As regards the doctrine of specific subject matter of trademark rights, see *supra* Sect. 7.3.3.

[6] See Recital 11 in the Preamble to Directive 2008/95/EC and Recital 8 in the Preamble to Regulation (EC) 207/2009, where the origin function is recognised as the primary (but not the only) function of trademarks.

provide for an exemption to rules expressing the fundamental principle of free movement of goods.[7] Derogation from the previously mentioned principle may be accepted only in exceptional circumstances, as suggested in Article 36 of the TFEU. Based on this observation, only circumstances justifying prohibitions of parallel imports on the basis of the protection of the specific subject matter of trademarks may fall within the meaning of the term in question.[8] This position is confirmed by the case law of the ECJ, which has acknowledged that a legitimate reason for non-application of the doctrine of exhaustion of trademark rights exists only where a parallel importation entails an adverse effect on the specific subject matter of the exclusive right flowing from the trademark borne by the parallel imported goods.

Therefore, based on the doctrine of specific subject matter of trademark rights, i.e. the rationale of the rule of Community-wide exhaustion of trademark rights as stated in Chap. 7,[9] "legitimate reasons" that allow the proprietor of a trademark to oppose parallel imports of goods bearing the trademark that have been put on the market within the EEA by the trademark proprietor or with his consent or; in other words, "legitimate reasons" for excluding the application of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 shall exist a) where the condition of the parallel imported goods is changed or impaired after they have been put on the market for the first time and b) where the use of the trademark affixed to the goods imported in parallel by the independent trader (parallel importer or independent reseller) entails damage or a risk of damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark. The aim of this chapter is precisely to identify and analyse the cases falling within the meaning of the aforementioned reasons.[10]

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[7] Cf. Opinion of Advocate General Jääskinen in Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, point 73.

[8] Cf. Opinion of Advocate General Yves Bot in Joined Cases C-400/09 and C-207/10, *Orifarm A/S and Others (C-400/09) and Paranova Danmark A/S and Paranova Pack A/S (C-207/10) v. Merck Sharp & Dohme Corp. and Merck Sharp & Dohme BV and Merck Sharp & Dohme*, [2011] ECR I-7063, point 40; Opinion of Advocate General Stix-Hackl in Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, point 117; Joined Opinion of Advocate General Jacobs in Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457, point 77; Opinion of Advocate General Sharpston in Case C-348/04, *Boehringer Ingelheim KG and others v. Swingward Ltd and Dowelhurst Ltd*, [2007] ECR I-3391, point 13.

[9] See *supra* Sect. 7.3.6.

[10] It is reminded that, based on the Court's case law, the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 must be interpreted in the same way (see Case C-127/09, *Coty Prestige Lancaster Group GmbH v. Simex Trading AG*, [2010] ECR I-4965, para. 46, and *supra* Sect. 8.1.3.2).

10.2 Change or Impairment in the Original Condition of Parallel Imported Goods

10.2.1 Introduction: Definitions

By virtue of the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, the proprietor of a trademark is entitled to oppose the use of the mark by a third party (parallel importer or independent reseller) that markets parallel imported goods bearing the trademark where the condition of the goods was changed or impaired after they had been put on the market for the first time.

A first issue that arises in relation to the above legitimate reason for excluding EU-wide exhaustion of trademark rights is whether a "change" or "impairment" in the condition of a "trademarked good" is to be understood to mean only a change or impairment in the original condition of the product inside the packaging or, on the contrary, any change or impairment in the condition of the good, including any change or impairment in the original condition of the packaging of the good. To settle that issue, it is to be noted that it follows from the Court's case law on the legality of parallel imports of pharmaceuticals, which was reviewed in Chap. 7, that the Court recognises the distinction between the packaging and the product inside the packaging.[11] In other words, the Court has not considered that the packaging of a good and the product inside the packaging is a unity, as the predominant view accepted, on the contrary, in German legal literature.[12] Also, according to that case law, the proprietor of a trademark may oppose the parallel importation of goods bearing the trademark in cases where the goods have been repackaged, unless some conditions are met. One of those conditions is that the repackaging cannot affect the original condition of the product inside the packaging.[13] This position illustrates that a change or impairment in the original condition of the packaging of a trademarked good constitutes, in principle, a legitimate reason for excluding the applicability of the principle of exhaustion of trademark rights. From the same position, it follows also that a change or impairment in the original condition of the product inside the packaging of a trademarked good constitutes definitely such a reason. Therefore, according to the Court, both a change or impairment in the

[11] See Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3671, para. 30; Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, [1996] ECR I-3603, para. 49; Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457, para. 59.

[12] See Beier (1995), p. 48; Fezer (1978), p. 605; Fezer (2009), § 24 MarkenG, pp. 1644–1645, Nr. 49; Hefermehl and Fezer (1979), p. 133; Stuckel (1991), p. 131. *Contra* Sack (1997), p. 5.

[13] See *supra* Sect. 7.3.3.3.

original condition of the product inside the packaging of a trademarked good and a change or impairment in the original condition of the packaging of a trademarked good fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.

Another issue is about the semantic content of the terms "change" ("Verändern" in German) and "impairment" ("Verschlechtern" in German) and, in particular, how to make a distinction between the two terms.

In an attempt to make a distinction between the terms "change" and "impairment", it has been proposed that the term "change" refers to any change in the condition of a trademarked good imported in parallel due to an action taken by the parallel importer or any independent reseller. On the contrary, as far as the term "impairment" is concerned, it has been proposed that that term refers to any deterioration of the original condition of a trademarked good imported in parallel due to natural causes, i.e. the life cycle of the good.[14]

It is the view of this author that the foregoing approach is not favoured by the wording of the provisions of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009. Indeed, the wording of those provisions does not seem to support the assertion that a "change" in the condition of trademarked goods imported in parallel can be solely due to an action taken by the parallel importer or any independent reseller, while an "impairment" in the condition of trademarked goods imported in parallel can be solely due to natural causes.[15]

According to another approach, the terms "change" and "impairment" are complementary, the latter being subordinate to the former one. This is explained by the fact that the term "change" includes, etymologically, not only the improvement but also the deterioration of the original condition of trademarked goods imported in parallel.[16]

The second approach is preferable in spite of the fact that it is, in a way, in conflict with the distinction between the terms "change" and "impairment" made by the wording of the provisions of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. In particular, the term "change" refers to any change in the identity, properties, composition, quantity, or design of a trademarked good after it has been put on the market.[17] The term "impairment" ("Verschlechtern") refers only to the deterioration of the condition of a trademarked good after it has been put on the market.[18] Therefore, the term "change" may refer to either an improvement or a deterioration of the condition of a trademarked good after it has been put on the market.[19] On the other hand, the term "impairment" may

[14] So Sack (1997), p. 3.

[15] So also Schuster (1998), p. 80.

[16] So Schuster (1998), pp. 80–81.

[17] See, in relation to the term "Verändern", Brockhaus Wiesbaden (1994).

[18] See, in relation to the term "*Verschlechtern*", Drosdowski et al. (1990).

[19] Under the WZG, it was argued on an isolated basis that the improvement of the quality of a trademarked product does not constitute a change in its condition justifying the non-applicability

refer only to a deterioration of the condition of a trademarked good after it has been put on the market.

In any event, the foregoing controversy does not seem to be of importance in practice. What is actually essential is that, according to the European Court of Justice's case law, Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 are, in principle, not applicable if the condition of the packaging of a trademarked good is changed after the good has been put on the market. Also, the previously mentioned provisions are definitely not applicable if the condition of the product contained in a packaging to which a trademark has been affixed is changed after the product has been put on the market.

10.2.2 Change or Impairment in the Original Condition of the Packaging of a Trademarked Good Imported in Parallel

10.2.2.1 Introduction

In many cases, the parallel importation of a product in the packaging used for the marketing of the product in the exporting Member State or under the trademark affixed to the packaging of the product in the exporting Member State either is not possible because of the legal framework governing the trade of the product in the importing Member State or is not economically attractive for an independent trader.

Pharmaceuticals are a typical category of products, parallel imports of which encounter legal or actual barriers. Indeed, very often, the parallel import of a pharmaceutical product in the package in which the product has been put on the market in the exporting Member State is not possible by reason, in particular, of a rule authorising packaging only of a certain size or a national practice to the same effect or because there are sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging or well-established medical prescription practices based, *inter alia*, on standard sizes recommended by professional groups and sickness insurance institutions.[20] Moreover, the parallel importation of a pharmaceutical product to a Member State may not be possible because

of the rule of exhaustion of trademark rights. See Fricke (1977), p. 224. This position was, however, challenged by the most German legal commentators and German case law. See Fezer (2009), § 24 MarkenG, p. 1644, Nr. 47; OLG Köln, *GRUR* 1998, 54—*Mercedes Stern*.

[20] Cf. Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457, para. 53; Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, [1996] ECR I-3603, para. 43; Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3671, para. 25.

there is a law or established consumer habits imposing that the trademark borne by the product is visible to the consumer or the end user[21] or the external packaging of the product gives certain important information or has a specific appearance.[22] In other cases, the legal framework governing the marketing of pharmaceuticals or the established consumer habits in the importing Member State force parallel importers to affix to the original external or inner packaging of pharmaceutical products imported in parallel new labels in the language of the importing Member State or to add new user instructions or information in the language of the importing Member State or to replace an additional article not capable of gaining approval in the importing Member State with a similar article that has obtained such approval.[23] Also, it is likely that the legal framework governing the marketing of pharmaceuticals or established consumer habits in the importing Member State force parallel importers of pharmaceutical products to replace the trademark under which the products have been put on the market with the one used by the proprietor of that trademark (or the distribution system authorised by the proprietor of that trademark) in the importing Member State.[24] Finally, as regards parallel trade in pharmaceuticals, it is possible to combine the replacement of the packaging or the alteration of the contents or the appearance of the external packaging or, finally, the affixation of a new label to the original packaging of pharmaceutical products imported in parallel with the removal of the trademark under which the products have been put on the market in the exporting Member State or the affixation of the parallel importer's trademark to the products.[25]

Such cases may also arise in other categories of trademarked products. Therefore, in relation to luxury products, for instance, independent traders, in order to ensure parallel trade from a practical point of view, remove or eliminate the identification numbers that trademark proprietors have applied to such products in order to be able to reconstruct the itinerary of those products, with the purpose of preventing dealers from supplying persons carrying on parallel trade.[26]

Therefore, in the light of the Court's case law pertaining to the legality of parallel imports of pharmaceuticals and luxury products, the parallel import of a trademarked product may be combined with one of the following practices:

a) replacing the (outer or inner) packaging of the product ("repackaging", "Umpacken"), which includes:

[21] Cf. the facts in Case C-1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, [1981] ECR 2913.

[22] Cf. the facts in Joined Cases C-71/94, C-72/94 and C-73/94, n. 20 above.

[23] Cf. Joined Cases C-427/93, C-429/93 and C-436/93, n. 20 above, para. 55; Joined Cases C-71/94, C-72/94 and C-73/94, n. 20 above, para. 45; Case C-232/94, n. 20 above, para. 27.

[24] Case C-379/97, *Pharmacia & Upjohn SA v. Paranova A/S*, [1999] ECR I-6927.

[25] Cf. the facts in Case C-348/04, *Boehringer Ingelheim KG and Others v. Swingward Ltd and Dowelhurst Ltd*, [2007] ECR I-3391.

[26] Cf. the facts in Case C-349/95, *Frits Loendersloot, trading as F. Loendersloot Internationale Expeditie v. George Ballantine & Son Ltd and Others*, [1997] ECR I-6227.

i) replacing the inner or outer packaging of the product with the inner or outer packaging used for the (authorised) distribution of the product in the market of the Member State of importation and re-affixing the trademark under which the product has been put on the market to the new (inner or outer) packaging ("repackaging with re-affixing the trademark", "Umpacken mit Neukennzeichnung" in German);
ii) replacing the outer packaging of the product with a view to making the trademark affixed to the inner packaging by its manufacturer visible ("repackaging without re-affixing the trade mark", "Umpacken ohne Neukennzeichnung" in German);

b) altering the contents or the appearance of the outer packaging of the product while leaving intact the trademark affixed to that packaging;
c) replacing the existing product label ("relabelling", "Neu-Etikettieren" in German) or sticking a label on the existing packaging, which includes:

i) replacing the existing product label while leaving intact the trademark under which the product has been put on the market and the rest of the packaging of the product ("relabelling", "Neu-Etikettieren" in German);
ii) sticking a label on the inner or outer packaging of the product while leaving intact the trademark under which the product has been put on the market and the information (e.g., instruction for use, identification numbers) contained in the inner or outer packaging of the product ["over-stickering" (first form)];
iii) sticking a label on the inner or outer packaging of the product in order to prevent the trademark affixed to that packaging or the other information (e.g., instruction for use, identification numbers) contained in that packaging from being visible ["over-stickering" (second form)];

d) adding new user instructions or information in the language of the Member State of importation to the packaging of the product;
e) replacing the accompanying product included in the packaging of the product;
f) replacing the trademark under which the product has been put on the market with the trademark used for the authorised distribution of the same product in the importing Member State ("rebranding", "Markenaustausch" in German);
g) affixing the trademark of the parallel importer to the inner or outer packaging of the product by sticking a label while retaining the trademark affixed to that packaging by the manufacturer of the product (co-branding);
h) removing the trademark under which the product has been put on the market, either by replacing the inner or outer packaging of the product or by sticking a label on the (inner or outer) packaging of the product.

The legality of the above practices was disputed, as expected, by trademark proprietors. Consequently, the ECJ was called on to decide upon them initially in the light of Articles 30 and Article 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) and then in the light of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC]. Specifically, the cases pertaining to the legality of the above practices upon which the ECJ has decided can be classified as follows:

a) cases where the legality of repackaging the parallel imported products, i.e. the legality of replacing the original (external or internal) packaging of the products imported in parallel and re-affixing the trademark affixed to the original packaging of the products or making the trademark affixed to the original internal packaging of the products visible to the consumer or the end user, without the trademark proprietor's authorisation, or the legality of practices similar to replacing the packaging of the parallel imported products (altering the appearance or the contents of the original outer packaging of the products imported in parallel, affixing a new label to the original (external or internal) packaging of the products imported in parallel, adding new user instructions or information in the language of the Member State of importation to the packaging of the products imported in parallel, replacing an additional article included in the packaging of the products imported in parallel, without the trademark proprietor's authorisation) is disputed;
b) cases where the legality of replacing the trademark under which the parallel imported products were put on the market with the trademark under which identical or slightly different products from the same manufacturer are put on the market in the Member State of importation, without the authorisation of the proprietor of those trademarks, is disputed;
c) cases where the legality of removing or eliminating the identification numbers of the parallel imported goods without the authorisation of the trademark proprietor is disputed;
d) cases where the legality of affixing the trademark of the parallel importer to the original packaging of the parallel imported goods without the authorisation of the trademark proprietor is disputed;
e) cases where the legality of removing the trademark borne by the parallel imported products without the authorisation of the trademark proprietor is disputed.

The positions taken by the Court in its decisions in cases like those previously described are presented below in order to determine the extent to which the practices considered in those cases are legal in the light of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. It is made clear that the Court's positions presented below apply to any case involving parallel trade, regardless of whether the proprietor of the trademark borne by the parallel imported goods in the exporting and importing Member States are the same person or different persons who are linked legally or economically or persons who are legally or economically linked to the same third party. This remark is founded on the formulations contained in the *IHT Internationale Heiztechnik v. Ideal-Standard* judgement, according to which all possible cases of parallel imports of trademarked goods must be treated in the same way under Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).[27]

10.2.2.2 Repackaging and Replacing the Trademark Affixed to Products Imported in Parallel

Replacing the Packaging and Changing the Appearance or Contents of the Outer Packaging of Pharmaceutical Products Imported in Parallel

The legality of parallel trade in products that were repackaged without the authorisation of the trademark proprietor was the subject of a debate during the preparatory work for Directive 89/10/EEC and Regulation (EC) 40/94. More specifically, paragraph (2) (c) of Article 11 of the Commission's "Proposal for a Council Regulation on Community trade marks" and of Article 6 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks"[28] provided for the exclusion of the applicability of the rule on exhaustion of trademark rights where trademarked goods were repackaged by a third party without the authorisation of the trademark proprietor after they had been put on the market.[29] However, the Council Working Group sought to delete those provisions, while the European Parliament suggested their replacement by introducing provisions on the basis of which the proprietor of a trademark could prevent the trademark from being used by a third party in relation to goods that had been put on the market not in every case in which the goods had been repackaged but only where the third party had re-affixed the trademark to the new packaging of the goods.[30] Such provisions would reflect the case law

[27] Case C-9/93, *IHT Internationale Heiztechnik GmbH and UWE Danziger v. Ideal Standard GmbH and Wabco Standard GmbH*, [1994] ECR I-2789, paras 34–35.

[28] COM (80) 635 final of 27.11.1980, OJ C 351/1 of 31.12.1980, also published in *GRUR Int*. 1981, 30 (Vorschlag einer ersten Richtlinie des Rates zur Angleichung des Markenrechts der Mitgliedstaaten) and 86 (Vorschlag einer Verordnung des Rates über die Gemeinschaftsmarke—Einleitung).

[29] According to Article 11 of the Commission's "Proposal for a Council Regulation on Community trade marks" and of Article 6 of the Commission's "Proposal for a first Council Directive to approximate the laws of the Member States relating to trade marks":

1. The trade mark shall not entitle the proprietor thereof to prohibit its use in relating to goods which *have been put on the market* under that trade mark by the proprietor or with his consent.
2. Paragraph (1) shall not apply:

   (a) where there are legitimate grounds for opposing importation *into the Community* of goods put on the market outside it;
   (b) where the condition of the goods is changed or impaired after they have been put on the market;
   (c) *where the goods are repackaged by a third party* (emphasis added).

[30] See Stothers (2007), p. 79 n. 161 and 162.

established in the decisions in *Hoffmann-La Roche v. Centrafarm*[31] and *Pfizer v. Eurim Pharm*.[32]

The "Amended Proposal for a Council Regulation on the Community trade mark"[33] and the "Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks"[34] did not include, eventually, provisions on the exclusion of the exhaustion of trademark rights rule in relation to trademarked products that were repackaged by a third party without the authorisation of the proprietor of the trademark after they had been put on the market. The Commission justified this omission by putting forward the argument that the issue of the legality of parallel imports of trademarked goods repackaged without the authorisation of the trademark proprietor had been already solved by the Court in the judgment in *Hoffmann-La Roche v. Centrafarm*.[35] Nevertheless, the non-inclusion of provisions excluding the rule of exhaustion of the national trademark right and the Community trademark right with regard to products that were repackaged without the authorisation of the proprietor of the trademark borne by the products raised the question of how to assess the legality of parallel imports of such products under Directive 89/104/EEC and Regulation (EC) 40/94.

The above-mentioned question was answered by the Court in *MPA Pharma*,[36] *Eurim-Pharm v. Beiersdorf*,[37] and *Bristol-Myers Squibb v. Paranova*.[38] The judgments in *MPA Pharma* and *Bristol-Myers Squibb v. Paranova* concern the legality of parallel imports of trademarked pharmaceutical products that have been put on the market in the EEA by the trademark proprietor or with his consent in cases where the original packaging of the products has been replaced and the trademark has been re-affixed to the new packaging without the authorisation of the trademark proprietor. The *Eurim-Pharm v. Beiersdorf* judgment concerns the legality of parallel imports of trademarked pharmaceutical products that have been put on the market in the EEA by the trademark proprietor or with his consent in cases

[31] Case C-102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, [1978] ECR 1139.

[32] Case C-1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, [1981] ECR 2913.

[33] OJ 31.08.1984, C 230/1.

[34] OJ 31.12.1985, C 351/4.

[35] See the Commission's "Explanatory Memorandum" to the "Amended Proposal for a Council Regulation on the Community trade mark" [Com (84) 470 final, 31 July 1984], at vii; Commission's Explanatory Memorandum to the "Amended Proposal for a First Council Directive to approximate the laws of the Member States relating to trade marks" [COM (85) 793 final, 17.12.1985], at v.

[36] Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH*, [1996] ECR I-3671.

[37] Joined Cases C-71/94, C-72/94 and C-73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG (C-71/94), Boehringer Ingelheim KG (C-72/94) and Farmitalia Carlo Erba GmbH (C-73/94)*, [1996] ECR I-3603.

[38] Joined Cases C-427/93, C-429/93 and C-436/93, *Bristol-Myers Squibb v. Paranova A/S (C-427/93) and C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S (C-429/93) and Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S (C-436/93)*, [1996] ECR I-3457.

where the products have been repackaged in a new outer packaging so that the trademark affixed to the original inner packaging of the products becomes visible to the consumer and the end user and where the appearance or the contents of the original outer packaging of the products have been altered while the trademark affixed to that packaging has remained intact.

In particular, in the above-mentioned judgments, the Court accepted that the settlement of the relevant disputes should be based on its case law developed in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU) on the legality of parallel imports of trademarked pharmaceutical products that had been repackaged without the authorisation of the trademark proprietor, by pointing out that "there is nothing to suggest that Article 7 [of Directive 89/104/EEC (now Article 7 of Directive 2008/95/EC)] is intended to restrict the scope of that case-law".[39] Moreover, in the *Eurim-Pharm v. Beiersdorf* decision, the Court rejected a different legal treatment of parallel imports of trademarked pharmaceutical product cases where the products have been repackaged and the trademark affixed to their original packaging has been re-affixed to the new packaging, where the trademark affixed to the original internal packaging of the products has become visible to the consumer or the end user after the products have been repackaged in a new external packaging, and where the appearance of the original external packaging of the products or the information contained in that packaging has been altered, while the trademark affixed to that packaging by the manufacturer has remained intact. According to the relevant formulations: "there is no reason in principle to distinguish between the situation where a third party reaffixes the trade mark after repackaging the product, and the situation where, after the product has been repackaged, he uses the trade mark affixed to the original packaging by the manufacturer by leaving it visible through new external packaging or by retaining the original external packaging itself".[40]

Therefore, in the light of the decisions in *Hoffmann-La Roche v. Centrafarm* and *Pfizer v. Eurim Pharm* and taking into account the arguments put forward by the parties in the cases in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova,* the Court decided in the aforesaid cases that the proprietor of a trademark is entitled, in principle, by virtue of Article 36 of the EEC Treaty (now Article 36 of the TFEU)[41] and Article 7 (2) of Directive 89/104/EEC[42] [now Article 7 (2) of Directive 2008/95/EC], to oppose the parallel importation of a

[39] Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 36.

[40] Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 38.

[41] In *MPA Pharma* and *Eurim-Pharm v. Beiersdorf*, the questions referred for a preliminary ruling concerned the interpretation of Article 36 of EEC Treaty (now Article 36 of the TFEU) and not the provision of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], most probably because of failure to transpose Directive 89/104/EEC into national law on time.

[42] In *Bristol-Myers Squibb v. Paranova*, the questions referred for a preliminary ruling concerned the provision of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC].

pharmaceutical product bearing the trademark that has been legally put on the market in the EEA where the parallel importer:

a) has repackaged the product and re-affixed the trademark to the new packaging without the authorisation of the trademark proprietor[43];
b) has repackaged the product in a new external packaging through which the trademark affixed to the original internal packaging of the product has been made visible, without the authorisation of the trademark proprietor[44];
c) has altered the contents and the appearance of the original external packaging of the product while retaining the trademark affixed to that packaging by the manufacturer, without the authorisation of the trademark proprietor.[45]

Nevertheless, the possibility of opposing the parallel importation does not exist if the following conditions, which constitute a clarification of the conditions laid down in the judgment in *Hoffmann-La Roche v. Centrafarm*, are cumulatively[46] fulfilled[47]:

a) it is established that reliance on the trademark right by the trademark owner in order to oppose the marketing of repackaged products under that trademark would contribute to the artificial partitioning of the markets between Member States;
b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging;
c) the new packaging clearly states who repackaged the product and the name of the manufacturer;
d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner;
e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product.

[43] See the operative part of the decisions *MPA Pharma* (Case C-232/94, n. 36 above) and *Bristol-Myers Squibb v. Paranova* (Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above).

[44] See the operative part of the decision in *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above).

[45] See the operative part of the decision in *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above).

[46] Case C-348/04, *Boehringer Ingelheim KG and Others v. Swingward Ltd and Dowelhurst Ltd*, [2007] ECR I-3391, para. 60.

[47] See the operative part of the judgments in *MPA Pharma* (Case C-232/94, n. 36 above), *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above) and *Bristol-Myers Squibb v. Paranova* (Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above).

Affixing a New Label to the Original Packaging—Adding New Instructions for Use or Information to the Original Packaging—Replacing the Additional Article Included in the Original Packaging of Pharmaceutical Products Imported in Parallel

In the *Glaxo Group v. Dowelhurst II* case,[48] the Court was asked to determine whether the conditions set out in the judgments in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* apply in assessing the legality of affixing, without the authorisation of the trademark proprietor, a new label to the (inner or outer) packaging of a trademarked pharmaceutical product imported in parallel that has been legally put on the market in the EEA.

Both the referring court and Advocate General Sharpston, in her Opinion in that case, answered this question in the negative. More specifically, according to the Higher Court of England and Wales, which dealt with that case at first instance, affixing a new label to the packaging of a good should not be regarded as liable to impair the specific subject matter of the exclusive right flowing from the trademark borne by the good.[49] Furthermore, according to the judgment of the Court of Appeal of England and Wales (referring court), such affixing did "no harm to the reputation of the claimants or their marks".[50] Finally, Advocate General Sharpston based her position on the formulations contained in the decision in *Hoffmann-La Roche v. Centrafarm*, in which the original source of the conditions laid down in the decisions in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* is to be found. In particular, having taken for granted that affixing a new label to the packaging of a trademarked good is not liable to affect the original condition of the product inside the packaging, she accepted that, in the light of the decision in *Hoffmann-La Roche v. Centrafarm*, "where there is no risk that the guarantee of origin is impaired, as in the case of applying an additional external label to the original external packaging while retaining the original internal packaging, the conditions [set out in the judgment *Bristol-Myers Squibb v. Paranova*] do not apply".[51]

Nevertheless, the Court did not follow the foregoing approach and decided that the proprietor of the trademark of a pharmaceutical product that has been lawfully put on the market in the EEA may prevent the product from being imported in parallel in its original internal and external packaging with an additional external label applied by the importer, without the authorisation of the proprietor, unless the five conditions set out in the judgment in *Bristol-Myers Squibb v. Paranova* are satisfied.[52] It justified this position by referring to its previous case law, according

[48] Case C-348/04, *Boehringer Ingelheim KG and Others v. Swingward Ltd and Dowelhurst Ltd*, [2007] ECR I-3391.

[49] EWHC 110 (Ch) (2003), para. 26.

[50] EWCA Civ 129 (2004), para. 78.

[51] Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 40.

[52] Case C-348/04, n. 48 above, para. 32.

to which relabelling is a form of repackaging trademarked pharmaceutical products,[53] and by observing that sticking a label on the packaging of a trademarked pharmaceutical product is, just like the re-boxing of the product, prejudicial to the specific subject matter of the exclusive right flowing from the trademark affixed to the product[54] and, more precisely, creates by its very nature real risks for the guarantee of origin that the trademark seeks to protect.[55]

The uniform legal treatment of re-boxing and relabelling trademarked pharmaceutical products imported in parallel should, in this author's opinion, be welcomed despite its stringency. In particular, according to the definition of the specific subject matter of the trademark right set out in the *Centrafarm v. Winthrop* decision,[56] the protection of the specific subject matter of the trademark right, under Article 36 of the TFEU, does mean not only maintaining the original condition of a trademarked good after it has been put on the market but also preventing the reputation of the trademark borne by a good from being damaged. Article 36 of the TFEU does aim at protecting not only the origin function of trademarks but also aspects of the economic value represented by a trademark.[57] Therefore, even, despite the reasonable doubts that could be expressed to the contrary, supposing that sticking a new label on the external packaging of a pharmaceutical product imported in parallel can, by no means, affect adversely the original condition of the product inside the packaging, as acknowledged by Advocate General Sharpston in her Opinion in *Glaxo Group v. Dowelhurst II*, it may by no means be excluded that the new appearance of the external packaging will damage the reputation of the trademark borne by the product or the proprietor of that trademark. Besides, it is submitted that the relabelling of a trademarked pharmaceutical product may consist of sticking a new label on the original internal packaging of the product. In such a case, a risk of the original condition of the product inside the packaging and, by extension, the origin function of the trademark affixed to the product being adversely affected not only cannot be excluded but, on the contrary, is highly likely to occur.[58]

The equalisation of the conditions for the legality of replacing the original (inner or outer) packaging or altering the contents or the appearance of the external

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[53] Case C-348/04, n. 48 above, paras 26–28. The Court referred, in particular, to the decision in Case C-143/00, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co. v. Swingward Ltd and Dowelhurst Ltd,* [2002] ECR I-3759, from which it follows that the Court includes the "relabelling" in the concept of "repackaging".

[54] Case C-348/04, n. 48 above, para. 29.

[55] Case C-348/04, n. 48 above, para. 30.

[56] Case C-16/74, *Centrafarm BV and Adriaan de Peijper v. Winthrop BV*, [1974] ECR 1183, para. 8.

[57] See, in relation to Article 36 of the EEC Treaty (now Article 36 of the TFEU), *supra* Sect. 7.3.3.4.

[58] Cf. also Stothers (2007), p. 82.

original packaging of trademarked pharmaceutical products imported in parallel with those for the legality of sticking a new label on the original packaging of such products imposes that the conditions laid down in the decisions in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* apply also in assessing the legality of some other forms of intervention on the original condition of trademarked pharmaceutical products imported in parallel, which, according to the ECJ's case law, are of the same gravity as sticking a new label on the original packaging of such products. In particular, in the above-mentioned decisions, the Court held that "The owner may oppose the repackaging of the product in new external packaging where the importer is able to achieve packaging which may be marketed in the Member State of importation by, for example, affixing to the original external or inner packaging new labels in the language of the Member State of importation, or by adding new user instructions or information in the language of the Member State of importation, or by replacing an additional article not capable of gaining approval in the Member State of importation with a similar article that has obtained such approval".[59] In the light of the foregoing excerpt, it can be argued that, in the view of the Court, adding new user instructions or information in the language of the Member State of importation to the packaging of a trademarked pharmaceutical product imported in parallel or replacing the accompanying product included in the packaging of such a product are considered to be of the same gravity as affixing a new label to the original packaging of such a product. Based on this observation and in view of the fact that the ECJ has applied the conditions set out in the judgments in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* in assessing the legality of trademarked pharmaceutical products imported in parallel after a new label has been affixed to their (outer or inner) packaging without the authorisation of the trademark proprietor, it seems right to accept that the conditions laid down in the judgments in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* apply also in considering the legality of adding new user instructions or information in the language of the Member State of importation to the packaging of a trademarked pharmaceutical product imported in parallel or replacing the accompanying product included in such a packaging.

Repackaging and Parallel Imports of Other Categories of Trademarked Products

The conditions set out in the judgments in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* for the legality of parallel imports of trademarked pharmaceutical products in cases where the packaging of the products has been replaced or a new label has been affixed to the packaging of

[59] Case C-232/94, n. 36 above, para. 27; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 45; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 55.

the products or new user instructions or information in the language of the Member State of importation have been added to the packaging of the products or the additional article included in the packaging of the products has been replaced, without the authorisation of the trademark proprietor, apply, in principle, to any trademarked product. This position, which already finds support in the Court's judgments issued prior to the adoption of Directive 89/104/EEC,[60] was confirmed by the European Court of Justice in *Loendersloot v. Ballantine*.[61] The dispute in the previously mentioned case concerned the legality of a parallel importation of alcoholic drinks, legally put on the market in the EEA, after labels bearing the trademark that the trademark proprietor seeking to prohibit the parallel importation had affixed to the products in question were removed and then re-affixed or replaced without the authorisation of the trademark proprietor.

In particular, according to the considerations made by the Court, the case law established in the *Hoffmann-La Roche v. Centrafarm* and *Bristol-Myers Squibb v. Paranova* decisions applies to each case where a trademarked product "has been subject to interference by a third party, without the authorization of the trade mark proprietor, which is liable to impair the guarantee of origin provided by the trade mark".[62] Nonetheless, the Court also observed that in formulating the conditions set out in those decisions, "account was taken of the legitimate interests of the trade mark owner with regard to the particular nature of pharmaceutical products".[63] Thus, as it will be illustrated below, in the analysis of those conditions, the Court judged, in *Loendersloot v. Ballantine,* that for a parallel importation as that at issue in that case to be legal, it is not required that the importer supplies the trademark proprietor with a specimen of the product in question and the packaging of the product clearly states who removed the labels bearing the trademark that the trademark proprietor seeking to prohibit the parallel importation has affixed to the product in question and then re-affixed or replaced them.

Replacement of the Trademark and Parallel Imports of Pharmaceuticals and Other Trademarked Products

In the case in *Upjohn v. Paranova*,[64] the Court was called on to decide on the legal treatment of parallel imports of pharmaceutical products after the trademark under which the products were put on the market for the first time in the EEA has been replaced with the trademark used for the authorised distribution of the same

[60] See Case C-102/77, n. 31 above, para. 13, where the ECJ said that, subject to consideration of the facts of a particular case, the positions expressed in that decision do not concern exclusively medicinal products.

[61] Case C-349/95, *Frits Loendersloot v. George Ballantine & Son Ltd etc*., [1997] ECR I-6227.

[62] Case C-349/95, n. 61 above, para. 27.

[63] Case C-349/95, n. 61 above, para. 48.

[64] Case C-379/97, *Pharmacia & Upjohn SA v. Paranova A/S*, [1999] ECR I-6927.

products in the Member State of importation without the authorisation of the proprietor of the two trademarks.

To resolve the above issue, the Court did not base its decision on Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] but on Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), in the light of which the Court had already examined a similar dispute in the *Centrafarm v. American Home Products* case,[65] before Directive 89/104/EEC entered into force. This is because, according to Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC], the rule of exhaustion of the rights conferred by the trademark apply only to goods that have been put on the market in the Community (now the EU) "under that trademark" by the proprietor of the trademark or with his consent.[66] Therefore, the aforesaid provision and, by extension, the provision of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] do not apply when the parallel importer replaces the original trademark affixed to a product with a different one, but the respective rights of the proprietor of the trademarks and of the parallel importer are determined by Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU).[67]

After a brief review of the case law established in the decisions in *Hoffmann-La Roche v. Centrafarm*, *Bristol-Myers Squibb v. Paranova*, and *Centrafarm v. American Home Products*,[68] the Court mentioned a basic conclusion that comes out of that case law, i.e. that the proprietor of a trademark may oppose under national law and Article 36 of the EEC Treaty (now Article 36 of the TFEU) the parallel importation of a product in cases where the product has been repackaged and the trademark affixed to the original packaging of the product has been re-affixed to the new one and where the trademark under which the product was put on the market has been replaced with the trademark used by the proprietor of both in the importing Member State, unless it is established, in particular, that such opposition contributes to the artificial partitioning of the markets between Member States.[69] Also, it observed that "that condition [:the trade mark proprietor's opposition contributes to the artificial partitioning of the markets between Member States] cannot be applied differently depending on whether the original trade mark is re-affixed after repackaging or replaced, unless separate rules are justified by objective differences between the two situations".[70] The Court stated correctly, following the Opinion of Advocate General Jacobs, that there is no objective difference between, on one hand, the opposition of a trademark proprietor to the parallel importation of trademarked products after the products have been repackaged and the trademark has been re-affixed to the new packaging and, on

[65] Case C-3/78, *Centrafarm BV v. American Home Products Corporation*, [1978] ECR 1823.

[66] Case C-379/97, n. 64 above, para. 27.

[67] Case C-379/97, n. 64 above, para. 28.

[68] Case C-379/97, n. 64 above, paras 13–22.

[69] Case C-379/97, n. 64 above, para. 31.

[70] Case C-379/97, n. 64 above, para. 32.

the other hand, the opposition of a trademark proprietor to the parallel importation of trademarked products after the trademark initially affixed to the products has been replaced with another mark that also belongs to the same owner.[71] This statement was based, on one hand, on the observation that "the practice of using different packaging and that of using different trade marks for the same product, in contributing similarly to the partitioning of the single market, adversely affect intra-community trade in the same way" and, on the other hand, on the observation that "the reaffixing of the original trade mark on the repackaged product and its replacement by another trade mark both represent a use by the parallel importer of a trade mark which does not belong to him".[72] Finally, the Court, in the light of the previously mentioned positions, stated that the condition of artificial partitioning of the markets between Member States, as defined by the Court in *Bristol-Myers Squibb v. Paranova*, applies where a parallel importer replaces the original trademark affixed to a product by that used by the proprietor of that trademark in the Member State of importation.[73]

In the light of the foregoing considerations, the proprietor of the trademark of a pharmaceutical or any other product cannot oppose the parallel importation of the product where the trademark under which the product was put on the market has been replaced, without the authorisation of the trademark proprietor seeking to prohibit the parallel importation, with the trademark used for the authorised distribution of the same product in the importing Member State, provided that it is established that the prohibition of such an importation would contribute to the artificial partitioning of the markets between Member States. Furthermore, in defining the meaning of the condition of artificial partitioning of the markets between Member States in cases where the legality of such parallel importations is examined, it is necessary to take into account the positions expressed by the ECJ with regard to the same condition in cases involving parallel imports of trademarked products that have been repackaged without the authorisation of the trademark proprietor (with or without re-affixing the original trademark) and vice versa.

Analysis of the Conditions Set Out in the Decisions in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*

Introduction

In the light of the case law established in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf, Bristol-Myers Squibb v. Paranova*, *Glaxo Group v. Dowelhurst II*, and *Loendersloot v. Ballantine* judgments, the proprietor of a trademark may, in

[71] Case C-379/97, n. 64 above, para. 37.
[72] Case C-379/97, n. 64 above, para. 38.
[73] Case C-379/97, n. 64 above, para. 40.

principle, by virtue of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, oppose the parallel importation of products that bear the trademark and that have been put on the market in the European Economic Area by the trademark proprietor or with his consent in cases where, without the authorisation of the proprietor:

a) the original packaging of the products has been replaced and the trademark under which the products were put on the mark has been re-affixed to the new packaging;
b) the original external packaging of the products has been replaced in order for the trademark affixed to the original internal packaging by the manufacturer to become visible;
c) the contents or the appearance of the original external packaging of the products has been altered, while the trademark affixed to that packaging has remained intact;
d) a new label has been affixed to the original packaging of the products;
e) new user instructions or information in the language of the Member State of importation have been added to the packaging of the products;
f) the additional article included in the packaging of the products has been replaced.

Moreover, based on the case law established in the judgments in *Upjohn v. Paranova* and *Centrafarm v. American Home Products,* the proprietor of a trademark may, in principle, by virtue of Article 36 (1) of the TFEU, oppose parallel imports of products that were put on the market under another trademark in the European Economic Area by the trademark proprietor or with his consent where the original trademark has been replaced by the trademark used for the authorised distribution of the same products in the importing Member State without the authorisation of the proprietor.

However, the above cases of parallel imports fall finally within the scope of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 if, in the cases of parallel imports of products that have been repackaged without the authorisation of the trademark proprietor [cases (a)–(f)],[74] the conditions set out in the decisions in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* are met cumulatively, i.e. provided that:

a) it is established that reliance on trademark rights by the trademark owner in order to oppose the marketing of repackaged products under that trademark would contribute to the artificial partitioning of the markets between Member States;
b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging;

[74] According to the ECJ's case law issued after the adoption of Directive 89/104/EEC, the interventions on the original condition of parallel imported trademarked products described in cases (a)–(f) constitute cases of "repackaging" parallel imported products.

c) the new packaging clearly states who repackaged the product and the name of the manufacturer;
d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner;
e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product.

The above-mentioned conditions apply, based on the formulations contained in the decision in *Loendersloot v. Ballantine,* not only to pharmaceuticals but, in principle, to any trademarked product.

Moreover, in the light of the judgments in *Upjohn v. Paranova* and *Centrafarm v. American Home Products*, the proprietor of a trademark cannot finally oppose parallel imports of products that were put on the market under another trademark in the European Economic Area by the trademark proprietor or with his consent where the original trademark has been replaced by the trademark used for the authorised distribution of the same products in the importing Member State without the authorisation of the trademark proprietor, provided that it is established that reliance on the trademark right by the trademark owner in order to oppose the marketing of such products would contribute to the artificial partitioning of the markets between Member States within the meaning of Article 36 (2) of the TFEU. The same thing also applies to any trademarked product.

It is for the national courts of the Member States to determine whether the above-mentioned conditions are met in the light of the facts of each individual case.[75] However, the case law of the ECJ provides guidance on whether the conditions in question are satisfied. Therefore, to define the scope of the provisions of Articles 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 in cases where the products imported in parallel have been repackaged or where the trademark under which the parallel imported products were put on the market has been replaced without the authorisation of the trademark proprietor, it is necessary to examine the views expressed by the Court with regard to the semantic content of the conditions in question.

First Condition: Reliance on the Trademark Right in Order to Prohibit Parallel Importation Would Contribute to the Artificial Partitioning of the Markets Between Member States

The first condition for the legality of pharmaceutical products being imported in parallel and, based on the formulations contained in the decision in *Loendersloot v. Ballantine,* of any trademarked products that have been repackaged (with or without re-affixing the trademark under which the products were put on the market) without the authorisation of the trademark proprietor, in the light of Article 7 (2) of

[75] Case C-349/95, n. 61 above, para. 51.

Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, is to be established that reliance on the trademark right by the proprietor in order to oppose such an importation would contribute to the artificial partitioning of the markets between Member States. The same condition must be satisfied, in the light of Article 36 of the TFEU, for the legality of a parallel importation where the trademark under which the products imported in parallel were put on the market has been replaced with the trademark used for the authorised distribution of the same products in the importing Member State without the authorisation of the trademark proprietor in the importing Member State (as well as without the authorisation of the trademark proprietor in the exporting Member State).

The condition under consideration firstly appears in the case law of the ECJ in the decision in *Hoffmann-La Roche v. Centrafarm*, where the Court distinguished clearly that condition from the other conditions set out in that decision for the legality of the parallel import at issue, which aimed at safeguarding the origin function of the trademark borne by the parallel imported goods. In particular, according to the formulations contained in that decision, "where the essential function of the trade-mark to guarantee the origin of the product is thus protected, the exercise of his rights by the proprietor of the trade-mark in order to fetter the free movement of goods between Member States may constitute a disguised restriction within the meaning of the second sentence of Article 36 of the [EEC] Treaty if it is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States".[76]

Therefore, in the Court's view, as expressed in the decision in *Hoffmann-La Roche v. Centrafarm,* for the exercise of a trademark right with a view to prohibiting the parallel importation of a product that had been repackaged without the authorisation of the trademark proprietor to be considered as a disguised restriction on trade between Member States within the meaning of Article 36, second subparagraph of the EEC Treaty (now Article 36, second subparagraph of the TFEU), it did not suffice to be found that the specific subject matter of that right had not been affected by the parallel importation, but it was necessary, in addition, to be found that the prohibition of the parallel importation would create artificial barriers to intra-Community trade.

Despite the fact that the condition under examination was highlighted by the Court in the *Hoffmann-La Roche v. Centrafarm* decision, the previously mentioned decision did not answer the question of when the partitioning of the markets between Member States was to be considered "artificial". According to some legal authors, a partitioning of the markets was to be considered "artificial" when, taking into account all crucial facts, it could be considered to be a result of the competition conditions prevailing on the markets concerned.[77] On the contrary, a partitioning of the markets was to be considered "natural" when it was due to a

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[76] Case C-102/77, n. 31 above, para. 10.

[77] See Schefold (1997), p. 158; Hart and Reich (1990), p. 257.

number of market factors that were beyond the influence and the control of the trademark proprietor.[78] The question was finally addressed by the most recent case law of the Court, as described below.

Moreover, the decision in *Hoffmann-La Roche v. Centrafarm* did not address the question of whether for the exercise of a trademark right for the purpose of prohibiting the parallel importation of a product that had been repackaged, without the authorisation of the trademark proprietor, to be subject to Article 36 (2) of the EEC Treaty [now Article 36 (2) of the TFEU], it was also necessary to prove an intention of the trademark proprietor to partition the markets between Member States. An important part of the then legal literature answered that question in the affirmative by arguing that in order to subject the exercise of a trademark right to Article 36 (2) of the EEC Treaty [now Article 36 (2) of the TFEU], it was not enough to be established objectively that there was a partitioning of the markets between Member States, but it was also necessary to be found a conscious effort by the trademark proprietor to partition those markets.[79] Such a view seemed to be favoured temporarily by the formulations made by the Court in *Centrafarm v. American Home Products*, where the Court accepted that a trademark proprietor is entitled to oppose parallel imports in cases in which the trademark under which the products imported in parallel were put on the market has been replaced without the authorisation of the trademark proprietor by the trademark used for the authorised distribution of the same products in the importing Member State, unless such opposition is "part of a system of marketing *intended* to partition the markets artificially" (emphasis added).[80] Another part of the then legal literature argued, however, that in order to subject the exercise of a trademark right to Article 36 (2) of the EEC Treaty [now Article 36 (2) of the TFEU], it was enough to establish that the system of marketing adopted by the trademark proprietor entailed objectively the creation of artificial barriers to intra-Community trade.[81] In the light of the foregoing, the contested nature of the condition under examination urged most likely Advocate General Jacobs to put forward, in his jointed Opinion in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, arguments against maintaining it in the case law of the European Court of Justice. In particular, Advocate General Jacobs expressed the view that, for the legality of the parallel importation of a trademarked pharmaceutical product whose packaging has been replaced with re-affixing the trademark to the new packaging, without the authorisation of the trademark proprietor, it is not required to show that reliance on the trademark right by the trademark proprietor in order to prohibit the parallel importation would contribute to the artificial partitioning of the markets between

[78] See Ebenroth (1992), pp. 33–34, Nr. 33.

[79] So also Beier (1995), p. 49; Brändel (1980); Kleist (1979), p. 26; Röttger (1979); Röttger (1980), p. 248; Röttger (1981); Röttger (1982); van Empel (1979), p. 542.

[80] Case C-3/78, n. 65 above, para. 21.

[81] See Baumbach and Hefermehl (1985), § 15 WZG, pp. 689–690, Nr. 85; Fezer (1978), pp. 604, 605; Hefermehl and Fezer (1979), p. 37.

Member States.[82] According to Advocate General Jacobs, prohibiting such a parallel importation may be justified, in the light of Article 36 of EEC Treaty (now Article 36 of the TFEU), when the prohibition is deemed necessary for protecting the specific subject matter and essential function of the trademark right. If this is not the case, reliance on the trademark right in order to exclude such an importation "must amount to an abusive exercise of the trade mark right and a disguised restriction on trade" as "the presumption inevitably arises that the trade mark is being used for some other purpose, for example to cause or reinforce a partitioning of the common market and to allow the trade mark owner to maintain price differences in the various Member States".[83]

Nevertheless, the Court did not adopt Advocate General Jacobs' approach. On the contrary, in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, it reaffirmed the validity of the condition under examination (the first of the conditions set out in *Hoffmann-La Roche v. Centrafarm*) in any case involving the repackaging of trademarked pharmaceutical products imported in parallel (with or without re-affixing the trademark under which the products were put on the market).[84] Besides, in *Upjohn v. Paranova,* it reaffirmed the validity of the condition under examination for the legality of parallel imports in cases where the trademark under which the products imported in parallel were put on the market has been replaced by the trademark used for the authorised marketing of the same products in the importing Member State, as described above.[85] Moreover, based on the formulations contained in the decision in *Upjohn v. Paranova,* the condition under examination must apply in the same manner to cases concerning the legality of repackaging trademarked products imported in parallel and in cases concerning the legality of replacing the trademark under which trademarked products importing in parallel were put on the market.[86] Finally, the validity of the condition under examination in cases concerning the legality of repackaging parallel imported pharmaceutical products and, based on the formulations contained in the decision in *Loendersloot v. Ballantine,* any trademarked products was reaffirmed, once again, in the judgment in *Boehringer Ingelheim v. Swingard (I)*, where the ECJ stressed the independence of the condition under examination in relation to the other conditions set out in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments.[87]

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[82] See Joined Opinion of Advocate General Jacobs in Case C-232/94 (n. 36 above); Joined Cases C-71/94, C-72/94 and C-73/94 (n. 37 above); Joined Cases C-427/93, C-429/93 and C-436/93 (n. 38 above), [1996] ECR I-3457, points 80–84.

[83] See Joined Opinion of Advocate General Jacobs, n. 82 above, point 82.

[84] See *supra* section "Replacing the Packaging and Changing the Appearance or Contents of the Outer Packaging of Pharmaceutical Products Imported in Parallel".

[85] See *supra* section "Replacement of the Trademark and Parallel Imports of Pharmaceuticals and Other Trademarked Products".

[86] Case C-379/97, n. 64 above, para. 40.

[87] See Case C-143/00, *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc,*

In the light of the *Boehringer Ingelheim v. Swingard (I)* decision, the dependence of the legality of the parallel importation of a trademarked product that has been repackaged, without the authorisation of the trademark proprietor, on the finding that the exercise of the trademark right with a view to prohibiting such an importation would contribute to the artificial partitioning of the markets between Member States expresses precisely the view that the repackaging of a trademarked product imported in parallel creates, by its very nature, a real risk of the origin function of the trademark being impaired.[88] Therefore, in the Court's view, the repackaging of a trademarked product imported in parallel creates, by its very nature, a real risk of the specific subject matter of the trademark right being adversely affected, and this is why it must be allowed only if, apart from the other conditions that must be met, it is found that the exercise of that right for the purpose of excluding the parallel importation contributes to creating artificial obstacles to intra-Union trade. Likewise, the dependence of the legality of the parallel import of a product whose original trademark has been replaced with the trademark used for the authorised marketing of the same products in the importing Member State without the authorisation of the trademark proprietor on the finding that the exercise of the trademark right with a view to prohibiting such an import would contribute to the artificial partitioning of the markets between Member States expresses precisely the view that affixing a new trademark to a product creates by its very nature a risk of the origin function of the trademark being impaired, even if the product is genuine.[89]

The formulations contained in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions also answer the question of whether, in order for the condition under consideration to be met, it is necessary to be established that the trademark owner deliberately sought to partition the markets between Member States. More precisely, according to the above-mentioned decisions, "the Court's use of the words 'artificial partitioning of the markets' does not imply that the importer must demonstrate that, by putting an identical product on the market in varying forms of packaging in different Member States, the trade mark owner deliberately sought to partition the markets between Member States. By stating that the partitioning in question must be artificial, the Court's intention was to stress that the owner of a trade mark may always rely on his rights thereunder in order to oppose the marketing of repackaged products when such action is justified by the need to safeguard the essential function of the trade mark, in which case the resultant partitioning could not be regarded as artificial".[90] Thus, in order for the first condition for the legality of parallel imports of trademarked pharmaceuticals and, in the light of the *Loendersloot v. Ballantine*

SmithKline & French Laboratories Ltd and Eli Lilly and Co. v. Swingward Ltd and Dowelhurst Ltd, [2002] ECR I-3759, paras 28–35, in particular para. 32.

[88] See Case C-143/00, n. 87 above, in particular paras 29–30.

[89] Case C-3/78, n. 65 above, paras 13–14; Case C-379/97, n. 64 above, para. 31.

[90] Case C-232/94, n. 36 above, para. 29; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 47; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 57.

decision, of any trademarked product that has been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor to be satisfied, it suffices to be established that prohibiting the parallel importation at issue would contribute objectively to the artificial partitioning of the markets between Member States. This also applies, based on the *Upjohn v. Paranova* decision, to the legality of parallel imports of products whose original trademark has been replaced with the mark used for the authorised marketing of the same products in the importing Member State without the authorisation of the mark proprietor.

The exemption of the condition under examination from the proof of a conscious effort of the trademark proprietor to partition the markets between Member States is, in this author's view, correct, as the requirement of such a proof would cause the following problems.

Firstly, there would be a question with regard to the time at which the intention of the trademark proprietor to partition the markets should be identified. More precisely, a question would arise as to whether that time coincides with the moment in time when the manufacturer of the parallel imported products adopted a system of marketing based on the use of different packaging or different trademarks for the distribution of his products in the various Member States or with the moment in time when the above-mentioned manufacturer uses his trademark for the purpose of excluding the parallel importation at issue.[91]

Secondly, a question would arise as to the way of proving the intention of the trademark proprietor to partition the markets. Indeed, if the solution of applying a presumption that the trademark proprietor would have to rebut were not to be chosen but the parallel importer were the one having the burden of proving such an intention, it is easy to understand that the requirement to provide such proof would inhibit parallel trade in trademarked products that have been repackaged or whose original trademark has been replaced.[92]

Thirdly, it is stressed that an objective consideration of the condition under examination is also required by the principle of legal certainty. An independent trader must, *ex ante*, i.e. before importing a trademarked product in parallel, know whether the import may be prohibited by the trademark proprietor in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation 207/2009/EC or Article 36, subparagraph 1 of the TFEU. However, this would not be possible if the application of the aforesaid provisions were to depend on whether an intention

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[91] Cf. Urlesberger (2002), p. 106.

[92] Cf. Castillo de la Torre (1997), p. 312; Esche (1987), p. 236; Gloria (1983), p. 903; Urlesberger (2002), p. 106. The difficulty of proving that the trademark proprietor is intended to partition the markets was also acknowledged by the Court in its decision in *Upjohn v. Paranova* (Case C-379/97, n. 64 above, para. 41), with a reference to the Opinion of Advocate General Jacobs in the same case (points 40–42), and by Advocate General Jacobs in his Joined Opinion in Case C-232/94; Joined Cases C-71/94, C-72/94 and C-73/94; Joined Cases C-427/93, C-429/93 and C-436/93, n. 82 above, point 83.

of the trademark proprietor to partition the markets between Member States is established.[93]

By its decisions in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* cases, the Court also specified when the exercise of a trademark right with a view to prohibiting a parallel importation would contribute to the artificial partitioning of the markets between Member States. More specifically, according to the formulations relevant to this, this is the case in particular "where the owner has placed an identical pharmaceutical product on the market in several Member States in various forms of packaging, and the product may not, in the condition in which it has been marketed by the trade mark owner in one Member State, be imported and put on the market in another Member State by a parallel importer".[94] It is, therefore, observed that, in the Court's view, which was confirmed in its subsequent case law, the exclusion of products imported in parallel, which have been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor, would contribute to the artificial partitioning of the markets between Member States if it is found that the products could not be put on the market in the Member State of importation without the repackaging. In relation to trademarked pharmaceutical products imported in parallel, an inability of such products to be marketed in the Member State of importation without having been repackaged in a new external packaging may arise, in the Court's view, when the size of packet used by the trademark proprietor in the Member State where the importer purchased the products cannot be marketed in the Member State of importation by reason, in particular, of a rule authorising packaging only of a certain size or a national practice to the same effect, sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging, or well-established medical prescription practices based, *inter alia*, on standard sizes recommended by professional groups and sickness insurance institutions.[95] On the contrary, an inability of such products to be marketed in the Member State of importation without having been repackaged in a new external packaging does not arise where the importer is able to achieve packaging that may be marketed in the Member State of importation by, for example, affixing to the original external or inner packaging new labels in the language of the Member State of importation or by adding new user instructions or information in the language of the Member State of importation or by replacing an additional article not capable of gaining approval in the Member State of importation with a similar article that has

[93] Cf. Urlesberger (2002), p. 106. As has been correctly pointed out by Advocate General Jacobs, n. 82 above, point 83: "A parallel importer who wishes to repackage goods needs to be able to determine with a reasonable degree of certainty whether he may lawfully do so".

[94] Case C-232/94, n. 36 above, para. 24; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 42; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 52.

[95] Case C-232/94, n. 36 above, para. 25; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 43; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 53.

obtained such approval.[96] Finally, as pointed out by the Court, an inability of trademarked pharmaceutical products imported in parallel to be marketed in the Member State of importation without having been repackaged in a new external packaging may also arise when the trademark proprietor uses in the Member State of importation many different sizes of packaging, one of which is also marketed in the Member State of exportation. In the view of the Court, partitioning of the markets exists also if the importer is able to sell the product in only part of the market of the Member State of importation.[97]

The inability of the trademarked products imported in parallel to be marketed in the Member State of importation as a criterion for finding that the exercise of the trademark right with a view to prohibiting the parallel import would contribute to the artificial partitioning of the markets between Member States was confirmed by the ECJ also with regard to parallel imported products whose original trademark has been replaced by the trademark used for the authorised distribution of the same products in the Member State of importation. In particular, as pointed out by the Court in the *Upjohn v. Paranova* decision, it is objectively necessary to replace the original trademark borne by the parallel imported products with that used for the authorised distribution of the same products in the Member State of importation if the rules or practices in the importing Member State prevent the products from being marketed in that State under their trademark in the exporting Member State or where a rule for the protection of consumers prohibits the use, in the importing Member State, of the trademark under which the products were put on the market on the ground that it is liable to mislead consumers.[98] In contrast, the condition of necessity will not be satisfied if replacement of the trademark is explicable solely by the parallel importer's attempt to secure a commercial advantage.[99]

Other circumstances justifying the repackaging of trademarked pharmaceutical products imported in parallel are to be found in the decisions in *Merck v. Paranova* and *Boehringer Ingelheim v. Swingard I (Glaxo I)*. In those decisions, the Court confirmed an observation contained in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments, namely that the trademark proprietor may oppose the replacement of the packaging of parallel imported products bearing the trademark where the parallel importer is able to reuse the original packaging for the purpose of marketing in the Member State of importation by affixing labels to that packaging.[100] In addition, it applied an observation made in the *Upjohn v. Paranova* judgment (concerning the legality

[96] Case C-232/94, n. 36 above, para. 27; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 45; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 55.

[97] Case C-232/94, n. 36 above, para. 26; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 44; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 54.

[98] Case C-379/97, n. 64 above, para. 43.

[99] Case C-379/97, n. 64 above, para. 44.

[100] Case C-443/99, *Merck, Sharp & Dohme GmbH v. Paranova Pharmazeutika Handels GmbH*, [2002] ECR I-3703, para. 28; Case C-143/00, n. 87 above, para. 49.

of parallel imports after replacing the trademark borne by the parallel imported products) to cases concerning the legality of parallel imports of repackaged trademarked pharmaceutical products, namely it held that the condition of necessity will not be satisfied if the repackaging of the parallel imported product is explicable solely by the parallel importer's attempt to secure a commercial advantage.[101] It also recognised that affixing a new label to the packaging of trademarked pharmaceutical products imported in parallel is not sufficient and that it is necessary to replace their packaging if there exists on a market, or on a substantial part of it, such strong resistance from a significant proportion of consumers to relabelled pharmaceutical products that there must be held hindrance to effective market access exists.[102]

In the light of the foregoing, it is noted that the need to repackage (pharmaceutical or any other) trademarked products imported in parallel or to replace the trademark borne by such products with a view to making their marketing in the importing Member State possible may be dictated either by national rules and practices or by patterns of consumer preference that are sufficiently strongly held, widespread, and widely recognised.[103]

In its more recent decision in *Boehringer Ingelheim v. Swingard II (Glaxo II)*, the Court addressed the question of whether the necessity for replacing the packaging of a parallel imported pharmaceutical product with a view to it being marketed in the Member State of importation applies merely to the fact of replacing the packaging or also to the precise manner and style of the re-boxing carried out by the parallel importer. Without providing any specific statement of reasons, the Court accepted that the condition that the repackaging of a trademarked pharmaceutical product imported in parallel is necessary is directed only at the fact of repackaging the product—and the choice between a new carton and over-sticking—for the purposes of allowing that product to be marketed in the importing State and not at the manner or style in which it has been repackaged.[104] In spite of the lack of a specific justification, this Court's position seems appropriate, because if it were to be assumed that the condition of necessity covers not only the fact of repackaging the trademarked pharmaceutical product imported in parallel but also the manner or style in which the product has been repackaged, this would constitute an undue restriction on the free movement of goods among Member States.[105] In addition, as has been observed rightly by Advocate General Sharpston in her Opinion in *Boehringer Ingelheim v. Swingard II (Glaxo II)*, if it were to be accepted that the

[101] Case C-443/99, n. 100 above, para. 27; Case C-143/00, n. 87 above, para. 48.

[102] Case C-443/99, n. 100 above, para. 31; Case C-143/00, n. 87 above, para. 52.

[103] Cf. Joined Opinion of Advocate General Gulmann in Case C-443/99 & Case C-143/00, [2002] ECR I-3703, point 110.

[104] Case C-348/04, n. 48 above, para. 38; so also Case E-3/02, *Paranova AS v. Merck & Co., Inc. and Others,* [2004] EFTA Court Report 1, paras 41–45.

[105] See Case E-3/02, n. 104 above, paras 41–45; Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 51.

necessity test applies to the precise manner and style of repackaging, such an interpretation would place an intolerable burden on national courts, which would have to take numerous decisions on trivial details of pattern and colour, which are not obviously within their judicial remit.[106]

The right position that the condition that the repackaging of a trademarked pharmaceutical product imported in parallel is necessary is directed only at the fact of repackaging the product for the purposes of marketing it in the Member State of importation was confirmed by the Court in its subsequent decision in *Wellcome Foundation v. Paranova*.[107] In the previously mentioned decision, in particular, the European Court of Justice decided, by reference to the statements made in the *Boehringer Ingelheim v. Swingard II (Glaxo II)* decision, that the presentation of the packaging of a trademarked pharmaceutical product imported in parallel that has been repackaged without the authorisation of the trademark proprietor must be assessed only against the condition that it should not be such as to be liable to damage the reputation of the trademark or that of its proprietor.[108]

In the light of the case law of the ECJ pertaining to the legality of trademarked pharmaceutical products imported in parallel, it is possible to make the following observations regarding the first condition set out in the judgments in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*:

– The proprietor of a trademark is entitled, by virtue of the provisions of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation 207/2009/EC and Article 36 (1) of the TFEU, to exercise his right with a view to prohibiting the parallel import of (pharmaceutical or any other) products bearing his trademark that have been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor or whose original trademark has been replaced by the trademark used for the authorised distribution of the same products in the importing Member State without the authorisation of the trademark proprietor, provided that such an exercise would not contribute to the artificial partitioning of the markets between Member States.[109]
– The exercise of a trademark right with a view to excluding the marketing of trademarked products imported in parallel after they have been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor or after the trademark under which the products were put on the

[106] Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 54.

[107] Case C-276/05, *The Wellcome Foundation Ltd v. Paranova Pharmazeutika Handels GmbH*, [2008] ECR I-10479.

[108] Case C-276/05, n. 107 above, paras 26–30.

[109] See, with regard to repackaging, the operative parts of the judgments in *MPA Pharma* (Case C-232/94, n. 36 above), *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above), *Bristol-Myers Squibb v. Paranova* (Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above), and *Boehringer Ingelheim and others* (Case C-143/00, n. 87 above), while, with regard to the replacement of the trademark, see the operative part of the judgments in *Centrafarm* (Case C-3/78, n. 65 above) and in Case C-379/97, n. 64 above, para. 31.

market has been replaced by the trademark used for the authorised distribution of the same products in the Member State of importation without the authorisation of the trademark proprietor would contribute to the artificial partitioning of the markets between Member States when the repackaging of the products or the replacement of the trademark is indeed necessary for the marketing of the products in the Member State of importation.[110]

– In order to be determined whether the exercise of a trademark right for the purposes of prohibiting a parallel import would contribute to the artificial partitioning of the markets between Member States, it is not necessary to prove an intention of the trademark proprietor to partition the markets between Member States.[111]
– Repackaging trademarked products imported in parallel or replacing the trademark originally borne by the products is objectively necessary for the marketing of the products in the Member State of importation also in cases where, without the repackaging or the replacement of the trademark, the products could be sold in only part of the market of the Member State of importation.[112]
– Repackaging trademarked products imported in parallel or replacing the trademark originally borne by the products may be objectively necessary for the marketing of the products in the Member State of importation due to national rules and practices or patterns of consumer preference that are sufficiently strongly held, widespread, and widely recognised.[113] On the other hand, repackaging trademarked products imported in parallel or replacing the trademark originally borne by the products is not objectively necessary for the marketing of the products in the Member State of importation if it is explicable solely by the parallel importer's attempt to secure a commercial advantage.[114]
– The condition that the repackaging of the trademarked products imported in parallel is necessary is directed only at the fact of repackaging the products—and the choice between a new carton and over-sticking—for the purposes of

[110] See, with regard to repackaging, Case C-232/94, n. 36 above, para. 24; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 42; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 52, while, with regard to the replacement of the trademark, see Case C-379/97, n. 64 above, para. 43.

[111] See, with regard to repackaging, Case C-232/94, n. 36 above, para. 24; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 42; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 52, while, with regard to the replacement of the trademark, see Case C-379/97, n. 64 above, para. 40.

[112] Case C-232/94, n. 36 above, para. 26; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 44; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 54.

[113] Cf. Case C-232/94, n. 36 above, para. 25; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 43; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 53; Case C-443/99, n. 100 above, para. 31; Case C-143/00, n. 87 above, para. 52; Joined Opinion of Advocate General Gulmann, n. 103 above, point 110.

[114] See, with regard to repackaging, Case C-443/99, n. 100 above, para. 27; Case C-143/00, n. 87 above, para. 48, while, with regard to the replacement of the trademark, see Case C-379/97, n. 64 above, para. 44.

allowing the products to be marketed in the importing State and not at the manner or style in which they have been repackaged or the presentation of the new packaging of the products.[115]

- It is for the national court to determine, taking into account the specific circumstances of each individual case, whether the repackaging of trademarked products imported in parallel or the replacement of the trademark borne by such products is objectively necessary for the marketing of the products in the Member State of importation.[116]
- Despite the fact that the conditions for the legality of parallel imports of trademarked products whose original external or internal packaging has been replaced are the same as the conditions for the legality of parallel imports of trademarked products where new labels in the language of the Member State of importation have been affixed to the original external or inner packaging of the products or new user instructions or information in the Member State of importation have been added to the packaging of the products or an additional article (included in the packaging of the products) not capable of gaining approval in the Member State of importation has been replaced with a similar article that has obtained such approval,[117] the uniform treatment of the previously mentioned parallel imports does not apply in applying the first condition laid down in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions. More specifically, in the Court's view, "The power of the owner of trade mark rights protected in a Member State to oppose the marketing of repackaged products under the trade mark should be limited only in so far as the repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation".[118] The foregoing position, which constitutes an expression of the principle of proportionality, means that the exercise of a trademark right for the purposes of prohibiting the parallel import of products whose packaging has been replaced (with or without re-affixing the trademark) without the authorisation of the trademark proprietor does not contribute to the artificial partitioning of the markets between Member States if a softer intervention on the original condition of the products suffices for the products to be marketed in the importing Member State. As regards trademarked pharmaceutical products imported in parallel, the affixation of a new label to the original external or internal packaging of the products, the addition of new user instructions or information in the Member State of

[115] Case C-348/04, n. 48 above, para. 39; Case C-276/05, n. 107 above, para. 30.

[116] See, with regard to repackaging, Case C-443/99, n. 100 above, para. 32; Case C-143/00, n. 87 above, para. 53, while, with regard to the replacement of the trademark, see Case C-379/97, n. 64 above, para. 45.

[117] See *supra* section "Affixing a New Label to the Original Packaging—Adding New Instructions for Use or Information to the Original Packaging—Replacing the Additional Article Included in the Original Packaging of Pharmaceutical Products Imported in Parallel".

[118] Case C-232/94, n. 36 above, para. 28; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 46; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 56.

importation to the packaging of the products, and the replacement of the additional article included in the packaging of the products with a similar article that has obtained such approval have been recognised by the Court as such softer interventions on the original condition of the products.[119] Likewise, despite the fact that the Court has not yet expressed such a view, the exercise of a trademark right for the purpose of preventing trademarked products from being imported in parallel after the trademark under which the products were put on the market has been replaced by the trademark used for the authorised distribution of the same products in the importing Member State does not seem to be lawful in the light of Article 36 (1) of the TFEU if, for the products to be marketed in the imported Member State, a replacement of their packaging suffices.[120] This position is based on the view that affixing a mark to a product's packaging for the first time involves, most likely, the highest risk for the origin function of the trademark and, by extension, the specific subject matter of the trademark right to be adversely affected, even if the trademark is affixed to a genuine product.[121]

Second Condition: The Repackaging Cannot Affect the Original Condition of the Product Inside the Packaging

The second condition for the legality of parallel imports of trademarked pharmaceutical products and, based on the formulations contained in the *Loendersloot v. Ballantine* decision, of any trademarked products that have been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation 207/2009/EC, is that the repackaging cannot affect the original condition of the product inside the packaging.

The above-mentioned condition aims primarily at safeguarding the origin function of the trademark borne by the parallel imported products, as it is inferred from the definition of the essential function of the trademark right put forward by the ECJ in the *Hoffmann – La Roche v. Centrafarm* decision. According to the aforesaid decision, the origin function of the trademark means that the consumer or ultimate user can be certain that a trademarked product that is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trademark, such as to affect the original condition of the product.[122] Moreover, in the same decision, the Court also observed that "depending on the nature of the product repackaging in many cases inevitably affects its condition, while in others repackaging involves a more or less

[119] Case C-232/94, n. 36 above, para. 27; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 45; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 55; Case C-443/99, n. 100 above, para. 28; Case C-143/00, n. 87 above, para. 49.

[120] Cf. Stothers (2007), p. 96.

[121] Cf. Hays (2004), p. 113, para. 3.71.

[122] Case C-102/77, n. 31 above, para. 7.

obvious risk that the product might be interpreted with or its original condition otherwise affected".[123] Nevertheless, the above-mentioned decision recognised also that "it is possible to conceive of the repackaging being undertaken in such a way that the original condition of the product cannot be affected". In the ECJ's view, "this may be so where, for example, the proprietor of the trade mark has marketed the product in a double packaging and the repackaging affects only the external packaging, leaving the internal packaging intact, or where the repackaging is inspected by a public authority for the purpose of ensuring that the product is not adversely affected".[124]

The *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments clarified further the condition under consideration. More specifically, in the aforesaid decisions, the Court confirmed, first of all, that the proprietor of a trademark may oppose the parallel import of a product bearing the trademark that has been repackaged without the authorisation of the proprietor not only when the repackaging affects but also when it is liable to affect the original condition of the product inside the packaging.[125] This remark reflects the view that the proprietor of a trademark needs to be protected not only when the specific subject matter of his right is adversely affected but also when there is a risk of that subject matter being adversely affected. However, it is not possible for each hypothetical risk of isolated error to suffice to confer on the trademark owner the right to oppose parallel imports of repackaged products bearing his trademark.[126] The latter position expresses the result of a weighing up of trademark protection and the principle of free movement of goods. The latter principle would be excessively restricted if the possibility of prohibiting parallel imports of trademarked repackaged products even in cases of a hypothetical risk of the original condition of the product inside the packaging being affected were to be accepted.[127]

In the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments, the Court also confirmed the criteria set out indicatively in the *Hoffmann – La Roche v. Centrafarm* decision in order to determine whether the repackaging of a trademarked product imported in parallel was carried out in a such manner as to affect or to involve a risk of affecting the original condition of the product inside the packaging. The nature of the product and the method of repackaging were mentioned, in particular, as such criteria.[128] To specify the aforesaid criteria, the ECJ pointed out, in the light of the considerations included

[123] Case C-102/77, n. 31 above, para. 10.

[124] Case C-102/77, n. 31 above, para. 10.

[125] Case C-232/94, n. 36 above, para. 31; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 49; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 59.

[126] Case C-232/94, n. 36 above, para. 35; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 53; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 63.

[127] See also Schuster (1998), pp. 105–106.

[128] Case C-102/77, n. 31 above, para. 10; Case C-232/94, n. 36 above, para. 31; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 49; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 59.

in the judgment in *Hoffmann – La Roche v. Centrafarm,* that "repackaging must be regarded as having been carried out in circumstances not capable of affecting the original condition of the product where, for example, the trade mark owner has placed the product on the market in double packaging and the repackaging affects only the external layer, leaving the inner packaging intact, or where the repackaging is carried out under the supervision of a public authority in order to ensure that the product remains intact".[129] Also, it held that "as for operations consisting in the fixing of self-stick labels to flasks, phials, ampoules or inhalers, the addition to the packaging of new user instructions or information in the language of the Member State of importation, or the insertion of an extra article, such as a spray, from a source other than the trade mark owner, there is nothing to suggest that the original condition of the product inside the packaging is directly affected thereby".[130] Nonetheless, as regards the previously cited operations, the Court noted also that the original condition of the product inside the packaging might be indirectly affected "where, (a) the external or inner packaging of the repackaged product, or a new set of user instructions or information, omits certain important information or gives inaccurate information concerning the nature, composition, effect, use or storage of the product, or (b) an extra article inserted into the packaging by the importer and designed for the ingestion and dosage of the product does not comply with the method of use and the doses envisaged by the manufacturer".[131]

Finally, it is submitted that it is for the national court to assess whether the repackaging cannot affect the original condition of the product inside the packaging since such an assessment is related to the facts of each individual case.[132]

Third Condition: The New Packaging Clearly States Who Repackaged the Product and the Name of the Manufacturer

The third condition for the legality of parallel imports of trademarked pharmaceutical products that have been repackaged without the authorisation of the trademark proprietor, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of the Regulation (EC) 207/2009, is that the new packaging clearly states who repackaged the product and the name of the manufacturer. As stated below, contrary to the other conditions laid down in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions, the above-mentioned condition applies, based on the considerations included in the

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129 Case C-232/94, n. 36 above, para. 32; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 50; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 60.

130 Case C-232/94, n. 36 above, para. 36; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 55; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 64.

131 Case C-232/94, n. 36 above, para. 37; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 56; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 65.

132 Case C-232/94, n. 36 above, para. 38; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, paras 54 and 57; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 66.

Loendersloot v. Ballantine judgment, only to trademarked pharmaceutical products and not to any trademarked product.

In the light of the *Hoffmann – La Roche v. Centrafarm* decision, the condition that the new packaging of a parallel imported pharmaceutical product that has been repackaged without the authorisation of the proprietor of the trademark borne by the product clearly states who repackaged the product aims primarily at protecting the origin function of the trademark more effectively. This is because that condition contributes to avoiding the possibility of the consumer or end user being confused as to the origin of the parallel imported product.[133] The aforementioned assumption is also confirmed by the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions.[134] Indeed, in the aforesaid decisions, the condition that the new packaging of a parallel imported pharmaceutical product that has been repackaged without the authorisation of the proprietor of the trademark borne by the product clearly states the name of the manufacturer of the product was also established. Great protection of the origin function of the trademark and, especially, the avoidance of the possibility of the consumer or end user believing that the parallel importer is the owner of the trademark and that the product has been manufactured under his supervision was put forward as the rationale of the condition in question too.[135]

It is worth mentioning that, obviously for the purposes of more effective protection of the origin function of the trademark, the Court pointed out that the name of the person/undertaking that repackaged, without the authorisation of the trademark proprietor, a trademarked pharmaceutical product imported in parallel and the name of its manufacturer must be *clearly* stated in the new packaging of the product (emphasis added). In particular, the Court held that the national court must assess whether the names of the repackager and the manufacturer of a trademarked pharmaceutical product imported in parallel are printed in such a way as to be understood by a person with normal eyesight, exercising a normal degree of attentiveness.[136] However, it also held that it is not necessary to require that the further express statement be made on the packaging that the repackaging was carried out without the authorisation of the trademark proprietor since such a statement could be taken to imply that the repackaged product is not entirely legitimate.[137] The latter statement of the ECJ also expresses the result of a weighting up of trademark protection and the principle of free movement of goods. The fundamental principle of free movement of goods would be excessively

[133] Case C-102/77, n. 31 above, para. 12.

[134] Case C-232/94, n. 36 above, para. 42; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 61; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 70.

[135] Case C-232/94, n. 36 above, para. 45; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 64; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 74.

[136] Case C-232/94, n. 36 above, para. 43; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 62; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 71.

[137] Case C-232/94, n. 36 above, para. 44; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 63; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 72.

restricted if the consumer or the end user believed incorrectly that the trademarked product sold to him is not entirely legitimate, even if the origin function of the trademark is protected to the greatest possible extent.

The condition that the name of the manufacturer must be clearly stated applies not only to the trademarked pharmaceutical product imported in parallel that has been repackaged without the authorisation of the trademark proprietor but also to the extra article added to the packaging of the product without the authorisation of the trademark proprietor by the parallel importer. In particular, in accordance with the formulations included in the *MPA Pharma, Eurim-Pharm v. Beiersdorf, and Bristol-Myers Squibb v. Paranova* decisions, "where the parallel importer has added to the packaging an extra article from a source other than the trade mark owner, he must ensure that the origin of the extra article is indicated in such a way as to dispel any impression that the trade mark owner is responsible for it".[138] This Court's position aims at protecting the origin function of the trademark borne by the product imported in parallel and not just at ensuring greater protection for that function. This is because, based on the *Hoffmann – La Roche v. Centrafarm* decision, the essential function of the trademark would be impaired if the consumer or ultimate user considered the proprietor of a trademark as the manufacturer of a product that has not been manufactured under the supervision of the proprietor in question.[139]

With regard to the obligation of stating the name of the person/undertaking that repackaged a pharmaceutical product imported in parallel, it is also to be noted that, on the basis of the *Orifarm and Others* decision,[140] that name may be replaced by the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging.[141] According to the ECJ and Advocate General Yves Bot, the trademark proprietor's interest in the consumer or end user not being led to believe that the proprietor is responsible for the repackaging "is fully safeguarded where the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging, appears clearly on the packaging of the repackaged product. Such an indication, as long as it is printed so as to be comprehensible to a normally attentive person, is such as to avoid the consumer or end user being given the incorrect impression that the

[138] Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 73.

[139] Case C-102/77, n. 31 above, para. 7. Cf. Case C-10/89, *SA CNL-SUCAL NV v HAG GF AG*, [1990] ECR I-3711, para. 13; Case C-9/93, n. 27 above, para. 37.

[140] Joined Cases C-400/09 and C-207/10, *Orifarm A/S and Others (C-400/09) and Paranova Danmark A/S and Paranova Pack A/S (C-207/10) v. Merck Sharp & Dohme Corp. and Merck Sharp & Dohme BV and Merck Sharp & Dohme*, [2011] ECR I-7063.

[141] It is worth pointing out that the Court had expressed this view indirectly in a previous decision and more specifically in the decision in Case C-349/95, n. 61 above, para. 30, where the ECJ refers to the obligation of stating the person in charge of repackaging.

product has been repackaged by the proprietor".[142] Such an approach is in conformity with the meaning of the essential function of the trademark. Indeed, just like, based on the ECJ's case law, the essential function of the trademark does aim at indicating not the undertaking that actually manufactured a trademarked product but the entity under the control of which the product was made, and which assumes responsibility for the quality (and the other features) of the product, it should be recognised that in order to fully safeguard the above-mentioned function, it suffices that the name of the undertaking at whose order and on whose instructions the repackaging of a trademarked pharmaceutical product imported in parallel has been carried out, and which assumes responsibility for the repackaging appears clearly on the packaging of the product.[143] The responsibility for the repackaging is mainly that "the trade mark proprietor can enforce his rights and, where appropriate, obtain compensation if the original condition of the product within the packaging has been affected by the repackaging or the presentation of the repackaged product is liable to damage the reputation of the trade mark".[144] Moreover, as the Court stated, "in such a case, an undertaking which is mentioned as the repackager on the new packaging of a repackaged product will have to answer for any damage caused by the undertaking which actually carried out the repackaging, and cannot avoid liability by arguing, in particular, that that undertaking acted contrary to its instructions".[145]

Contrary to the other conditions laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, *and Bristol-Myers Squibb v. Paranova* decisions, the condition that the new packaging of a parallel imported trademarked product that has been repackaged clearly states who repackaged the product and the name of the manufacturer applies only to pharmaceutical products. As deduced from the decision in *Loendersloot v. Ballantine*, which concerns the legality of parallel imports of repackaged alcoholic drinks, that condition is not necessary to be satisfied in relation to other trademarked products imported in parallel that have been repackaged. This differentiation is dictated, in the ECJ's view, by the particular nature of pharmaceutical products that calls for stronger protection of proprietors of trademarks borne by such products.[146] Nevertheless, it should be recognised that the obligation to state clearly the name of the manufacturer of the extra article added to the packaging of a parallel imported product without the authorisation of the trademark proprietor by the parallel importer applies to any trademarked product. The reason is that fulfilling that obligation aims not merely at granting stronger protection to proprietors of trademarks borne by products of a particular

[142] Joined Cases C-400/09 and C-207/10, n. 140 above, para. 29; Opinion of Advocate General Yves Bot in Joined Cases C-400/09 and C-207/10, n. 140 above, points 34 and 35.

[143] Opinion of Advocate General Yves Bot in Joined Cases C-400/09 and C-207/10, n. 140 above, in particular point 43.

[144] Joined Cases C-400/09 and C-207/10, n. 140 above, para. 30.

[145] Joined Cases C-400/09 and C-207/10, n. 140 above, para. 30.

[146] Case C-349/95, n. 61 above, para. 48.

nature but also at protecting the origin function of the trademark borne by the product imported in parallel. The condition that the essential function of the trademark must be safeguarded is, according to the ECJ's established case law,[147] a condition for the legality of parallel imports of any trademarked products.

Finally, it is to be noted that it is for the national court to assess whether the names of the repackager (or the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging) and the manufacturer of a trademarked pharmaceutical product imported in parallel that has been repackaged without the authorisation of the trademark proprietor are clearly stated in the new packaging of the product, as such an assessment is related to the facts of each individual case.[148] The same should also apply as regards the origin of the extra article added to the packaging of a pharmaceutical or any other trademarked product by the parallel importer of the product.

Fourth Condition: The Presentation of the Repackaged Product Is Not Such as to Be Liable to Damage the Reputation of the Trademark and of Its Owner

The fourth condition for the legality of parallel imports of trademarked pharmaceutical products and, based on the formulations contained in the decision in *Loendersloot v. Ballantine,* of any trademarked products that have been repackaged (with or without re-affixing the trademark) without the authorisation of the trademark proprietor, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation 207/2009/EC, is that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner. The above-mentioned condition is not mentioned in the *Hoffmann – La Roche v. Centrafarm* decision despite the fact that the ECJ had already accepted the protection of the advertising function of the trademark in the light of Article 36 of the EEC Treaty (now Article 36 of the TFEU) in the *Centrafarm v. Winthrop* decision.[149] In the decisions in *MPA Pharma, Eurim-Pharm v. Beiersdorf, and Bristol-Myers Squibb v. Paranova,* the Court corrected this omission by ruling that the proprietor of a trademark borne by a parallel imported pharmaceutical product that has been repackaged without the authorisation of the proprietor may oppose the parallel import if the presentation of the repackaged product is such as to be liable to damage the reputation of the trademark and of its owner, regardless of whether the conditions aiming at protecting and safeguarding to the greatest possible extent the origin function of the trademark are met, i.e. regardless of whether the repackaging

[147] See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Origin Function of the Trademark".

[148] Case C-232/94, n. 36 above, para. 43; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 62; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 71.

[149] See the definition of the subject matter of the trademark right provided by the Court in the decision in Case C-16/74, n. 56 above, para. 8.

has been carried out in conditions that cannot affect the original condition of the product inside the packaging[150] and the person who carried out the repackaging and the manufacturer of the product are indicated on the packaging of the product.[151]

In the judgments in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, some criteria on the basis of which the national court should assess whether the presentation of the repackaged product is liable to damage the reputation of the trademark borne by the product also were mentioned. More specifically, the nature of the product and the market for which it is intended were mentioned as such criteria.[152] Thus, in the ECJ's view, "in the case of pharmaceutical products, that is certainly a sensitive area in which the public is particularly demanding as to the quality and integrity of the product, and the presentation of the product may indeed be capable of inspiring public confidence in that regard".[153] Furthermore, with regard to luxury products, it is necessary, based on the relevant jurisprudence, to take account of the allure and prestigious image of the products and their aura of luxury.[154] As for pharmaceutical products, the Court indeed stressed that "the requirements to be met by the presentation of a repackaged pharmaceutical product vary according to whether the product is sold to hospitals or, through pharmacies, to consumers. In the former case, the products are administered to patients by professionals, for whom the presentation of the product is of little importance. In the latter case, the presentation of the product is of greater importance for the consumer, even if the fact that the products in question are subject to prescription by a doctor may in itself give consumers some degree of confidence in the quality of the product".[155] In any event, the reputation of the trademark borne by parallel imported pharmaceutical or other products that have been repackaged could be damaged, especially where, in the view of the national court, the new packaging of the products is defective, of poor quality, or untidy.[156]

Other cases in which, in the view of the national court, the reputation of the trademark borne by a repackaged product imported in parallel could be damaged are mentioned in the recent decision in *Boehringer Ingelheim v. Swingard II (Glaxo II)*. More specifically, in that decision, the ECJ clarified that the presentation of the

[150] Case C-232/94, n. 36 above, para. 39; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 58; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 67.

[151] Case C-232/94, n. 36 above, para. 46; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 65; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 75.

[152] Case C-232/94, n. 36 above, para. 46; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 65; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 75.

[153] Case C-232/94, n. 36 above, para. 47; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 66; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 76.

[154] Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV*, [1997] ECR I-6013, para. 45.

[155] Case C-232/94, n. 36 above, para. 48; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 67; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 77.

[156] Case C-232/94, n. 36 above, para. 47; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 66; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 76.

repackaged product imported in parallel is liable to damage the reputation of the trademark borne by the product not only in the case where the repackaging is defective, of poor quality, or untidy, namely that the case is mentioned indicatively in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions.[157] Based on this clarification, it further acknowledged that the repackaging of a parallel imported product is possible to damage the reputation of the trademark under which the product was put on the market also in cases where a parallel importer fails to affix the trademark to the new exterior carton (de-branding), applies his own logo or a house-style or a get-up or a get-up used for a number of different products ("co-branding"), positions the additional label so as wholly or partially to obscure the proprietor's trademark, fails to state on the additional label that the trademark in question belongs to the proprietor, or prints the name of the parallel importer in capital letters.[158] Moreover, as acknowledged by the Court in its most recent decision in *L'Oréal v. eBay*, the removal of the packaging of perfumes and cosmetics may sometimes have the effect of harming the image of such products and, thus, the reputation of the trademark they bear, even if that removal does not mean that the consumer or end user does not gain information required by a provision of EU law.[159] Finally, in the light of the Opinion of Advocate General Jääskinen in *L'Oréal v. eBay*, the repackaging of a parallel imported product is possible to damage the reputation of the trademark under which the product was put on the market also where the repackaging involves the removal of information accompanying the product in compliance with an EU measure pertaining to product safety or consumer protection.[160]

Finally, in relation to the fourth condition laid down in the decisions in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranov,* the following observations are submitted:

– Firstly, the trademark proprietor may oppose, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation 207/2009/EC, parallel imports of trademarked products that have been repackaged without his authorisation where the presentation of the products is liable to damage the reputation either of the trademark or of the proprietor,[161] although a risk of damage to the

[157] Case C-348/04, n. 48 above, paras 41–44.

[158] Case C-348/04, n. 48 above, paras 45–47. On the legality of affixing the trademark of the parallel importer to the parallel imported goods and removing the (original) trademark borne by the parallel imported goods, see *infra* Sects. 10.2.2.4 and 10.2.2.5.

[159] Cf. Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others, L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, in particular paras 78–79.

[160] Opinion of Advocate General Jääskinen in Case C-324/09, n. 159 above, point 76.

[161] See the operative part of the judgments in *MPA Pharma* (Case C-232/94, n. 36 above), *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above) and *Bristol-Myers Squibb v. Paranova* (Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above) as well as Case C-348/04, n. 48 above, para. 40.

reputation of the trademark borne by a product includes, normally, also a risk of damage to the reputation of the trademark proprietor.[162]

– Secondly, the concept of "reputation" in this context is wide in scope, i.e. the considerations made by the ECJ in relation to the fourth condition set out in the decisions in *MPA Pharma, Eurim-Pharm v. Beiersdorf,* and *Bristol-Myers Squibb v. Paranov* cover not only trademarks with a reputation within the meaning of Articles 4 (3) and (4) (a) and 5 (2) of Directive 89/104/EEC [now Articles 4 (3) and (4) (a) and 5 (2) of Directive 2008/95/EC] and Articles 8 (5) and 9 (1) (c) of Regulation (EC) 40/94 [now Articles 8 (5) and 9 (1) (c) of Regulation (EC) 207/2009] but also common trademarks.[163]
– Thirdly, taking unfair advantage of the reputation of the trademark borne by a product imported in parallel should also be considered, in this context, as a case involving a risk for the reputation of the trademark to be damaged. This may be the case, especially, where the parallel importer has affixed his trademark to the packaging of the products he markets.[164]
– Fourthly, the question of whether the presentation of parallel imported products that have been repackaged is liable to damage the reputation either of the trademark borne by the products or of the trademark proprietor is a question of fact for the national court to decide in the light of the circumstances of each case.[165]

Fifth Condition: The Importer Gives Notice to the Trademark Owner Before the Repackaged Product Is Put on Sale, and, on Demand, Supplies Him with a Specimen of the Repackaged Product

The fifth condition for the legality of parallel imports of trademarked pharmaceutical products that have been repackaged without the authorisation of the trademark proprietor, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of the Regulation (EC) 207/2009, is that the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product. The obligation of the importer to give notice to the trademark proprietor before the repackaged product imported in parallel is put on sale applies, on the basis of the formulations contained in the decision in *Loendersloot v. Ballantine*, not only to trademarked pharmaceutical products but also to any trademarked products.

[162] Case C-232/94, n. 36 above, para. 46; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 65; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 75.

[163] It is noted that the trademarks borne by the parallel imported products considered in the *MPA Pharma* (Case C-232/94, n. 36 above), *Eurim-Pharm v. Beiersdorf* (Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above), and *Bristol-Myers Squibb v. Paranova* (Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above) decisions were not trademarks that had a reputation.

[164] Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 63. See *infra* Sect. 10.2.2.2.

[165] Case C-348/04, n. 48 above, para. 46.

The obligation of the importer to give notice to the trademark proprietor before the repackaged product imported in parallel is put on sale (only) was introduced in the *Hoffmann – La Roche v. Centrafarm* decision. The interest of the proprietor of a trademark in the consumer not being misled as to the origin of a parallel imported product bearing the trademark was put forward as the rationale of that obligation.[166] In particular, in the ECJ's approach, as the latter was expressed in the *Hoffmann – La Roche v. Centrafarm* decision, the above-mentioned obligation aims at keeping the trademark proprietor alert to the possibility of the origin function of his trademark being impaired when products bearing his trademark that have been repackaged without the authorisation of the proprietor are imported in parallel.

In the light of the formulations contained in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, *Bristol-Myers Squibb v. Paranova*, and *Loendersloot v. Ballantine* decisions, the obligation of the importer to give notice to the trademark proprietor before the repackaged (pharmaceutical or any other) product imported in parallel is put on sale aims at keeping the trademark proprietor alert to the possibility of both the essential and advertising functions of his trademark being impaired when products bearing his trademark that have been repackaged without the authorisation of the proprietor are imported in parallel. Indeed, in the decision in *Hoffmann – La Roche v. Centrafarm*, the finding that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner was not among the conditions set out for the legality of the parallel import of a product that has been repackaged without the authorisation of the proprietor of the trademark borne by the product. Nevertheless, by establishing the aforementioned finding as a condition for the legality of the parallel import of a product that has been repackaged without the authorisation of the proprietor of the trademark borne by the product in the *MPA Pharma, Eurim-Pharm v. Beiersdorf, Bristol-Myers Squibb v. Paranova*, and *Loendersloot v. Ballantine* decisions, the Court made it clear that the proprietor of the trademark borne by a parallel imported (pharmaceutical or any other) product that has been repackaged without the authorisation of the proprietor needs to be protected against the possibility of both the essential and the advertising functions of his trademark being adversely affected.

Important clarifications on the obligation of the importer to give notice to the trademark proprietor before the repackaged product imported in parallel is put on sale were given by the ECJ in its recent decisions in *Boehringer Ingelheim v. Swingard I (Glaxo I)* and *Wellcome Foundation v. Paranova*.

In particular, in the *Boehringer Ingelheim v. Swingard I (Glaxo I)* decision, the Court, after it confirmed the validity of the above-mentioned obligation,[167] pointed out, firstly, that it is for the parallel importer itself to give notice to the trademark proprietor of the intended marketing of repackaged products bearing the mark of the proprietor and that it is not sufficient that the proprietor be notified by other sources,

[166] Case C-102/77, n. 31 above, para. 12.

[167] Case C-143/00, n. 87 above, para. 63.

such as the authority that issues a parallel import licence to the importer[168] and, secondly, that the trademark proprietor must have, in the light of all the relevant circumstances, a reasonable time to react to the intended marketing of repackaged products bearing his trademark.[169] In any case, in assessing whether a trademark proprietor had a reasonable time to react to the intended marketing of repackaged products bearing his trademark, the national court must weigh up the interest of the trademark proprietor in having a reasonable time to react to the intended marketing of repackaged products bearing his trademark and the parallel importer's interest in proceeding to market those products.[170]

Also, in the *Wellcome Foundation v. Paranova* decision, the ECJ clarified that the parallel importer fulfils the above-mentioned obligation only if he furnishes the proprietor of the trademark with the information that is necessary and sufficient to enable the latter to determine whether the repackaging of the product under that trademark is necessary in order to market it in the Member State of importation.[171] Moreover, it noted that the kind of information to be furnished depends on the facts of each case. Thus, it cannot, prima facie, be excluded that it may, in exceptional cases, involve disclosing the Member State of export where the absence of that information would prevent the proprietor of the trademark from evaluating the need to repackage.[172] Finally, the Court stressed that if the parallel importer establishes that the details furnished are used by the proprietor of the trademark to enable him to detect weaknesses in his sales organisation and, thus, combat parallel trade in his products, it is under the provisions of the EC Treaty (now TFEU) on competition that those engaged in parallel trade should seek protection against action of the latter type.[173] Such a remark seems reasonable, as fulfilling an obligation based on Article 36 of the TFEU, in particular on the doctrine of specific subject matter of the trademark right, should not lead to a circumvention of other provisions of the TFEU. The rules on free movement of goods and those of the TFEU on free competition are applicable in a cumulative way,[174] and, therefore, the legality of a conduct must be scrutinised in the light of both free movement of goods and competition provisions of the TFEU.

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[168] Case C-143/00, n. 87 above, para. 64.

[169] Case C-143/00, n. 87 above, para. 67.

[170] Case C-143/00, n. 87 above, para. 66.

[171] Case C-276/05, n. 107 above, para. 34.

[172] Case C-276/05, n. 107 above, para. 35.

[173] Case C-276/05, n. 107 above, para. 36.

[174] Regarding the cumulative application of Articles 30–36 of the EEC Treaty (now Articles 34–36 of the TFEU) and 85–86 of the EEC Treaty (now Articles 101–102 of the TFEU), see Ebenroth and Hübschle (1994), p. 144; Schödermeier (1987), p. 88. As has been expressly stated by the Court, the general principles of the EEC Treaty (now TFEU), the general rules of the EEC Treaty (now TFEU), including the rules on the free movement of goods, must be applied in so far as they are not excluded. See Case C-167/73, *Commission of the European Communities v. French Republic*, [1974] ECR 359, para. 28.

As for the second part of the condition under consideration, i.e. the importer's obligation to supply the trademark proprietor, on demand, with a specimen of the repackaged product imported in parallel, it is submitted once again that that obligation applies only to trademarked pharmaceutical products. This is because the particular nature of pharmaceutical products requires stronger protection for proprietors of trademarks borne by such products.[175] The above-mentioned obligation aims, firstly, at ensuring that the second and the fourth of the conditions set out in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, *Bristol-Myers Squibb v. Paranova* decisions are met, i.e. at enabling the trademark proprietor to check that the repackaging is not carried out in such a way as directly or indirectly to affect the original condition of the product inside the packaging and that the presentation after repackaging is not such as to damage the reputation of the trademark and of the trademark proprietor and, secondly, at affording the trademark proprietor a better possibility of protecting himself against counterfeiting.[176]

Finally, it is pointed out that it is for the national court to assess whether the condition under consideration is satisfied, namely, firstly, in relation to any parallel imported trademarked product that has been repackaged without the authorisation of the trademark proprietor, that the importer had given notice to the trademark owner before the product was put on sale and that the trademark proprietor had, in the light of all the relevant circumstances, a reasonable time to react to the intended marketing of the products and, secondly, in relation to trademarked pharmaceutical products imported in parallel that has been repackaged without the authorisation of the trademark proprietor, that the importer supplied, on demand, the trademark proprietor with a specimen of the product, as such an assessment is related to the facts of each individual case.

10.2.2.3 Removal or Elimination of Identification Numbers and Legality of Parallel Imports of Trademarked Products

Some particular issues arise when the parallel importer repackages the trademarked products that he is intended to market in order to remove or eliminate the identification numbers that the trademark proprietor has applied to the products. Those issues pertain to the first and the fourth of the conditions set out in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions, i.e. the condition that reliance on the trademark right in order to prohibit the parallel importation of the repackaged product would contribute to the artificial partitioning of the markets between Member States and the condition that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner.

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[175] Case C-349/95, n. 61 above, para. 48.

[176] Case C-232/94, n. 36 above, para. 49; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 69; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 78.

As for the condition that reliance on the trademark right in order to prohibit the parallel importation of the repackaged product would contribute to the artificial partitioning of the markets between Member States, in order to determine whether that condition is met in this context, it is crucial, in the light of the ECJ's case law, to determine the purpose served by the application of the identification numbers. More specifically, based on the considerations included in the *Loendersloot v. Ballantine* decision, placing identification numbers on trademarked products may, firstly, be imposed by a national or EU provision[177]; secondly, it may realise important objectives that are legitimate from the point of view of EU law, such as the recall of faulty products and measures to combat counterfeiting[178]; thirdly, it may aim at enabling producers to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade[179]; or, fourthly, a combination of the aforementioned possibilities may be the case.[180] In the light of the first condition laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions, the ECJ treated each one of the above-mentioned possibilities separately, except for the first and the second ones, which were treated jointly.

More specifically, based on the views expressed in the *Loendersloot v. Ballantine* decision, the exercise of a trademark right with a view to prohibiting the parallel import of trademarked products that have been repackaged in order to remove or eliminate the identification numbers placed on the products will not contribute to the artificial partitioning of the markets between Member States where it is established that for the trademark proprietor the application of identification numbers was necessary to comply with a legal obligation or to realise other important objectives that are legitimate from the point of view of EU law.[181] This position is reasonable since barriers to intra-Union trade cannot be regarded as artificial when their emergence is due to factors beyond the control of the trademark proprietor.[182]

On the contrary, the exercise of a trademark right with a view to prohibiting the parallel import of trademarked products that have been repackaged in order to remove or eliminate the identification numbers placed on the products will contribute to the artificial partitioning of the markets between Member States where it is established that the application of identification numbers aimed at enabling the trademark proprietor to reconstruct the itinerary of his products, with the purpose of preventing his dealers from supplying persons carrying on parallel trade.[183] In this case, the barriers to intra-Union trade that emerge as a result of the exercise of the

177 Case C-349/95, n. 61 above, para. 41.
178 Case C-349/95, n. 61 above, para. 41.
179 Case C-349/95, n. 61 above, para. 40.
180 Case C-349/95, n. 61 above, para. 43.
181 Case C-349/95, n. 61 above, para. 42.
182 Cf. Ebenroth (1992), pp. 33–34, Nr. 33.
183 Case C-349/95, n. 61 above, para. 40.

trademark right are undoubtedly artificial, since the application of identification numbers aims exclusively at rendering Articles 34 and 36 of the TFEU ineffective.

Finally, when for the trademark proprietor the application of identification numbers was necessary to comply with a legal obligation or to realise other important objectives that are legitimate from the point of view of EU law and, at the same time, it is established by the parallel importer that the trademark proprietor makes use of those numbers in order to impede parallel trade between Member States, the Court stated that the parallel importer may be protected in the light of the rules on free competition of the EEC Treaty (now TFEU).[184] This means that the trademark proprietor may, in principle, prevent parallel imports of products bearing his trademark that have been repackaged with a view to removing or eliminating the identification numbers placed on the products, but the parallel importer who proves that the trademark proprietor makes use of those numbers in order to impede parallel trade between Member States may seek protection under Articles 101 (1) or 102 of the TFEU. Such an approach seems reasonable since the fact that the placement of identification numbers on trademarked products is consistent with Article 36 of the TFEU does not necessarily mean that the purpose that those numbers are intended to serve is lawful in the light of Article 101 (1) of the TFEU and Article 102 of the TFEU. The rules on free movement of goods and those of the TFEU on free competition are applicable in a cumulative way, and, therefore, the legality of a conduct must be scrutinised in the light of both free movement of goods and competition provisions of the TFEU, as mentioned above.[185]

Even if it is established that the exercise of the trademark right with a view to prohibiting parallel imports of trademarked products that have been repackaged without the authorisation of the trademark proprietor and whose identification numbers have been removed or eliminated by the parallel importer will contribute to the artificial partitioning of the markets between Member States, it may not be excluded that such an exercise is legal in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 where, in the assessment of the national court, the removal or the elimination of those numbers is liable to damage the reputation of the trademark borne by the products. Such a possibility has not yet been examined by the ECJ. However, in cases where the placement of identification numbers on trademarked products is associated in the mind of the consumer or the ultimate user with product safety or consumer protection, it is very likely that the repackaging of the products with a view to removing or eliminating those numbers is liable to damage the reputation of the trademark borne by the products. Thus, trademark proprietors will most likely achieve to prohibit parallel imports of such products in the light of Article 7 (2) of Directive 2008/95/EC or

[184] Case C-349/95, n. 61 above, para. 43.

[185] See *supra* section “Fifth Condition: The Importer Gives Notice to the Trademark Owner Before the Repackaged Product Is Put on Sale, and, on Demand, Supplies Him with a Specimen of the Repackaged Product”.

Article 13 (2) of Regulation (EC) 207/2009.[186] This is because parallel importers will be highly unlikely to establish that the presentation of the repackaged products they market is not liable to damage the reputation of the trademark borne by the products.[187]

Finally, it is stressed that the condition that the removal or elimination of identification numbers should not be liable to damage the reputation of the trademark borne by parallel imported products should also apply to trademarked products imported in parallel whose identification numbers have been removed or eliminated without the products having been repackaged. In fact, as confirmed by the recent case law of the ECJ, there is a legitimate reason for excluding the parallel import of trademarked products, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, also where the conditions under which the products are marketed by the parallel importer (including the removal or elimination of the identification numbers placed on the products) create a risk of damage to the reputation of the trademark, even if the condition of the packaging of the products has not been affected.[188]

10.2.2.4 Addition of the Parallel Importer's Trademark and Legality of Parallel Imports of Trademarked Products

In many cases, parallel importers of trademarked products have themselves registered trademarks with a view to distinguishing the products they market from the products marketed by other parallel importers or even from the products marketed by authorised distributors. A question arises, therefore, as to whether the proprietor of a trademark has a legitimate reason to prohibit the parallel import of products bearing his trademark, by virtue of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, where the parallel importer has affixed his trademark to the products while the trademark under which the products were put on the market has remained intact.

According to the ECJ's case law, the above-mentioned question should be examined in the light of the fourth condition laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions.

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[186] The likelihood of a serious damage to the reputation of the trademark borne by a parallel imported product due to the removal or elimination of the identification numbers placed on the product by the trademark proprietor is also mentioned in the Opinion of Advocate General Stix-Hackl in Joined Cases C-414/99 to C-416/99, *Zino Davidoff SA v. A & G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others*, [2001] ECR I-8691, points 118–121. See also Unglaub (2001), pp. 209–210.

[187] With regard to the allocation of the burden of proof in cases concerning the application of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 see *infra* Sect. 10.5.3.

[188] Case C-59/08, *Copad SA v. Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, [2009] ECR I-3421, paras 57–58. See *infra* Sect. 10.3.3.

More precisely, the addition of the trademark of the parallel importer to a trademarked product is carried out, normally, by affixing a new label to the packaging of the product. Thus, in assessing the legality of the parallel importation in question, the conditions set out in the above-mentioned decisions apply.[189] The addition of the parallel importer's trademark is a factor that should be taken into account by the national court, in particular, when determining whether the condition that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner is met.[190]

The above-mentioned approach, which had already been accepted by the EFTA Court,[191] reflects precisely a weighting up of the interests of the trademark proprietor and the interests of the parallel importer of the trademarked product. Indeed, the trademark proprietor cannot, in principle, prevent the parallel importer from affixing his mark to a product bearing the trademark of the proprietor. The rule of exhaustion of trademark rights aims at ensuring not only the freedom of parallel trade between EU Member States but also the effective conduct of that trade. The latter includes also the freedom of the parallel importer to use his trademark for distinguishing the products he markets from the products marketed by the trademark proprietor or other parallel importers. On the other hand, the trademark proprietor should be able to oppose the parallel import of products bearing his mark to whose packaging the parallel importer has affixed his mark if, in the assessment of the national court,[192] the addition of the parallel importer's trademark may damage the reputation of the trademark of the proprietor in question. Besides, based on the judgments in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, the trademark proprietor should be able to oppose such a parallel import regardless of whether a risk of confusion as to the origin of the products arises, i.e. regardless of whether a risk of the origin function of the trademark being impaired arises.[193] Such damage to the reputation of the proprietor's trademark may arise, especially where the trademark of the parallel importer has been added in such a way that it may give rise to the impression that

[189] See *supra* section "Affixing a New Label to the Original Packaging—Adding New Instructions for Use or Information to the Original Packaging—Replacing the Additional Article Included in the Original Packaging of Pharmaceutical Products Imported in Parallel".

[190] Case C-348/04, n. 48 above, paras 45–47. It is to be reminded that the concept of "reputation" in this context is wide in scope, i.e. the considerations made by the ECJ in relation to the fourth condition set out in the decisions in *MPA Pharma, Eurim-Pharm v. Beiersdorf and Bristol-Myers Squibb v. Paranov* cover not only trademarks with a reputation within the meaning of Articles 4 (3) and (4) (a) and 5 (2) of Directive 89/104/EEC [now Articles 4 (3) and (4) (a) and 5 (2) of Directive 2008/95/EC] and Articles 8 (5) and 9 (1) (c) of Regulation (EC) 40/94 [now Articles 8 (5) and 9 (1) (c) of Regulation (EC) 207/2009] but also common trademarks. See *supra* section "*Fourth Condition: The Presentation of the Repackaged Product Is Not Such as to Be Liable to Damage the Reputation of the Trademark and of Its Owner*".

[191] Case E-3/02, n. 104 above, paras 54–56.

[192] Case C-348/04, n. 48 above, para. 46.

[193] Case C-232/94, n. 36 above, para. 39; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 58; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 67.

the parallel importer is the manufacturer or that there is a commercial connection between the parallel importer and the trademark proprietor and, in particular, that the parallel importer's business is affiliated to the trademark proprietor's distribution network or that there is a special relationship between the two undertakings.[194] In the aforesaid cases, apart from a risk of damage to the reputation of the proprietor's trademark, there is also an unfair exploitation of the reputation of the said trademark, which also justifies the exclusion of the parallel import, pursuant to Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, as has been accepted by the Court in another decision.[195]

Finally, it is pointed out that the condition that the addition of the trademark of the parallel importer to the packaging of a trademarked product should not entail a risk of damage to the reputation of the trademark under which the product was put on the market or an unfair exploitation of that reputation applies not only in cases where the product has been repackaged without the authorisation of the trademark proprietor but also in cases where no repackaging has been carried out. In fact, as confirmed by the recent case law of the ECJ, there is a legitimate reason for excluding the parallel import of trademarked products, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, also where the conditions under which the products are marketed by the parallel importer (including the addition of the trademark of the parallel importer to the packaging of the products) create a risk of damage to the reputation of the trademark or allow for an unfair exploitation of that reputation, even if the condition of the packaging of the products has not been affected.[196]

10.2.2.5 Removal of the Trademark and Legality of Parallel Imports of Trademarked Products

It cannot be excluded that the parallel importer of trademarked products removes the trademark borne by the products in order to market them under no trademark in the Member State of importation. Such a possibility is not highly likely since parallel importers know that consumers prefer, as a rule, branded products. Nevertheless, if the parallel importer removes the trademark borne by the products he markets by, e.g., affixing a new label to the external packaging of the products or altering the content or the appearance of the external packaging of the products, a question arises as to whether the trademark proprietor is able to prevent the parallel import by virtue of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009.

[194] Cf. Case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v. Ronald Karel Deenik*, [1999] ECR I-905, para. 51; Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 63.

[195] Case C-63/97, n. 194 above, paras 51 and 52. See *infra* Sect. 10.3.2.

[196] See *supra* n. 188.

According to the ECJ's case law, the above-mentioned question should be examined, like the addition of the parallel importer's trademark, in the light of the fourth condition laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions. More specifically, for the parallel import of trademarked products that have been repackaged for the purpose of removing the trademark under which the products were put on the market to be legal, the conditions set out in the above-mentioned decisions must be met. The removal of the trademark is a factor that should be taken into account by the national court when determining whether the condition that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner is met.[197]

In accordance with what was said with regard to the addition of the parallel importer's trademark, the above Court's position reflects precisely a weighting up of the interests of the trademark proprietor and the interests of the parallel importer of the trademarked product. Indeed, the trademark proprietor cannot, in principle, prevent the parallel importer from removing the proprietor's mark from a product that was put on the market under that mark.[198] The freedom and the effective conduct of parallel trade include also the freedom of the parallel importer to remove the trademark borne by the products he markets. On the other hand, the trademark proprietor should be able to oppose the parallel import of products that were put on the market under his mark if, in the assessment of the national court,[199] the removal of that mark may damage its reputation. The latter will be the case, especially when the products imported in parallel are of unique quality or have unique properties or a unique prestigious image or aura of luxury so that their marketing without the trademark under which the products were put on the market would jeopardise their uniqueness. Moreover, in its recent decision in *Portakabin v. Primakabin*,[200] the Court acknowledged that, where the reseller of products imported in parallel removes, without the consent of the trademark proprietor, the trademark that the products bear and replaces it with a label bearing the reseller's name, with the result that the trademark of the manufacturer of the products in question is entirely concealed, the trademark proprietor is entitled to prevent the reseller from using that mark to advertise that resale.[201] This is because, in such a case, the consumer or ultimate user is prevented from distinguishing the products originating from the proprietor and those originating from the reseller or other third parties.[202]

Finally, it is pointed out that the condition that the removal of the trademark under which a parallel imported product was put on the market should not entail a risk of damage to the reputation of that trademark applies not only in cases where

[197] See *supra* n. 190.

[198] Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 63.

[199] See *supra* n. 192.

[200] Case C-558/08, *Portakabin Ltd and Portakabin BV v. Primakabin BV*, [2010] ECR I-6963.

[201] Case C-558/08, n. 200 above, para. 86.

[202] Case C-558/08, n. 200 above, para. 86.

the product has been repackaged without the authorisation of the trademark proprietor but also in cases where no repackaging has been carried out. In fact, as confirmed by the recent case law of the ECJ, there is a legitimate reason for excluding the parallel import of trademarked products, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, also where the conditions under which the products are marketed by the parallel importer (including the removal of the trademark under which the products were put on the market) create a risk of damage to the reputation of the trademark, even if the condition of the packaging of the products has not been affected.[203]

10.2.3 Change or Impairment in the Original Condition of Trademarked Goods Imported in Parallel: Repair—Reprocessing of Trademarked Goods Imported in Parallel

10.2.3.1 The Rule and the Exception

It follows from the judgments in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* that there is a legitimate reason for excluding the applicability of the rule of exhaustion of national and Community trademark rights, by virtue of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, respectively, where the original condition of the product inside the packaging of a trademarked good has been affected directly or indirectly after the good has been put on the market. This is because if the original condition of the product inside the packaging of a trademarked good has been affected directly or indirectly, this means that the origin function of the trademark borne by the product and, by extension, the specific subject matter of the right flowing from that trademark has been impaired. Although the fact that the original condition of the product inside the packaging of a trademarked good has been affected constitutes a legitimate reason for excluding the parallel import of the good pursuant to Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009, a question arises as to whether any intervention on the original condition of the product inside the packaging of a trademarked good should be considered as such an affection. That question is based on the finding that one can imagine interventions that they do not alter the features identifying the origin of a trademarked good and, thus, do not adversely affect the origin function of the trademark borne by the good and, moreover, do not create a risk of damage to the reputation of that trademark.[204] Therefore, a question arises if, pursuant to Article 7 (2) of Directive 2008/95/EC or

[203] See *supra* n. 188.

[204] It is submitted that the term "reputation" does refer not only to the reputation of "trademarks with a reputation" but also to the reputation of common trademarks. Cf. *supra* section "*Fourth*

Article 13 (2) of Regulation (EC) 207/2009, there is a legitimate reason for excluding parallel imports of trademarked goods that have been subject to small-scale repair work or work aimed at eliminating minor defects or imperfections in the goods. Here, it should be recalled that manufacturers themselves often sell goods that meet lower quality standards than what manufacturers desire to characterise goods distributed through their authorised distributors to independent traders.[205]

To date, the Court has not yet had the chance to take a position on the question described above. Nevertheless, given, firstly, that a legitimate reason for excluding the applicability of the rule of EU-wide exhaustion of (national and Community) trademark rights may exist only where the specific subject matter of the trademark right is impaired or there is a risk for that subject matter to be impaired and, secondly, that not any intervention on the original condition of the product inside the packaging of a trademarked good implies an adverse effect or a risk of an adverse effect on the functions of the trademark borne by that good, protected under Article 36 of the TFEU, it seems right to accept that the above-mentioned rule applies, exceptionally, to cases where trademarked goods have been subject to some types of interventions that took place in the framework of the repair or the reprocessing of the goods. German legal doctrine and case law suggested a number of criteria in order to define those cases. Below, there is an analysis of those criteria and the conclusion drawn from that analysis.

10.2.3.2 Criteria for Scrutinising the Legality of the Repair and Reprocessing of a Trademarked Good Under Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009

Extent of the Works Carried Out

A first criterion for classifying the repair or reprocessing of a trademarked good as a change justifying an exception to the rule of EU-wide exhaustion of trademark rights is the extent of the works carried out in the framework of such a repair or reprocessing. Under WZG, German case law accepted that small-scale repairs or reprocessings of trademarked goods do not exclude the applicability of the rule on exhaustion of trademark rights. The reason was that a small-scale repair or reprocessing of a trademarked good neither affects the parts of the good that are essential for its functioning nor affects its main properties.[206]

Condition: The Presentation of the Repackaged Product Is Not Such as to Be Liable to Damage the Reputation of the Trademark and of Its Owner".

[205] See *supra* Sect. 1.1.

[206] See Althammer (1989), § 15, Nr. 8; Baumbach and Hefermehl (1985), § 15, Nr. 17 and 47; Busse *and* Starck (1990), § 15, Nr. 14; von Gamm (1965), § 15, Nr. 20; Waibel (1977a), p. 182.

A “small-scale repair or reprocessing” of a trademarked good is a repair or reprocessing that eliminates defects or imperfections in non-essential parts of the good.[207] As pointed out correctly by German legal literature, such operations do not exclude the applicability of the rules enshrined in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] and Article 13 (1) of Regulation (EC) 40/94 [now Article 13 (1) of Regulation (EC) 207/2009].[208] The elimination of defects or imperfections in non-essential parts of a good, even if done without the consent of the trademark proprietor, does not involve a risk of the origin function of the trademark borne by the good being adversely affected or a risk of damage to the reputation of the said trademark. It cannot be said that the origin function of the trademark guarantees that no defect or imperfection existed in a good at the time of its first marketing or at a later stage was eliminated without the consent of the trademark proprietor.[209] Otherwise, the principle of exhaustion of trademark rights would practically not apply to goods with a quite long life cycle such as cars, computers, and electric devices that are often marketed for the first time with minor defects or imperfections. Besides, even after such goods have been put on the market, defects or imperfections may emerge in their non-essential parts in the framework of their transfer from one shop to another or maintenance activities.[210] The consumer cannot expect that repairs or reprocessings aiming at eliminating defects or imperfections in non-essential parts of trademarked goods are always carried out under the supervision of trademark proprietors or with spare parts from factories operating under the supervision of trademark proprietors.[211] Furthermore, to accept that works aiming at eliminating defects or imperfections in parts of trademarked goods not related to the identity of the goods should be carried out exclusively with the authorisation of trademark proprietors, it does not seem to be covered by the scope of Articles 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.[212] Finally, it is pointed out that the reputation of the trademark borne by a good cannot be damaged when defects or imperfections in parts of the good not related to the functioning of it are eliminated without the authorisation of the trademark proprietor.[213] This is because, in such a case, there is no risk of misleading the consumer or ultimate user as to a feature of the good that is associated in the mind of the consumer or ultimate user with the origin of the good.

Contrary to small-scale repairs or reprocessings aiming at eliminating defects or imperfections in non-essential parts of trademarked goods, there are repairs or

[207] See Schuster (1998), pp. 62–63. Such a repair or reprocessing is, for instance, the replacement of a totally burnt lamp or a rusty fender of a car. Indeed, the lamp or the fender of a car is not directly linked to the functioning of the car.

[208] See Schuster (1998), pp. 63–64.

[209] Cf. Schuster (1998), p. 63.

[210] Cf. Schuster (1998), p. 62.

[211] Decker (1940), p. 127; Waibel (1977a), p. 183.

[212] Cf. Schuster (1998), p. 63.

[213] Cf. Schuster (1998), p. 63.

reprocessings that aim at replacing or reconstructing parts of trademarked goods directly linked to their function or that result in altering the constitution of trademarked goods.[214] Such works put the origin and advertising functions of the trademark borne by a trademarked good in jeopardy. In fact, such works affect the identity of the good, i.e. the features that indicate the origin of the good from a specific undertaking.[215] In addition, the misleading of the consumer or ultimate user as to the quality level, the technical performance, or the usability of the good may damage the reputation of the good's trademark regardless of whether the origin function of that trademark is impaired too.[216] Therefore, it is necessary to recognise that, in cases where large-scale repairs or reprocessings of trademarked goods have been carried out, trademark proprietors are entitled to oppose parallel imports of the goods, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.[217] It is also worth pointing out that German case law acknowledged, under WZG, an exception to the rule of exhaustion of trademark rights in that case.[218] In particular, German case law acknowledged that the replacement of a car's bodywork[219] and the assembly of a car's clutch by using spare parts from different manufacturers involve an exemption to the aforesaid rule.[220]

Based on the foregoing, a trademark proprietor has a legitimate reason, pursuant to Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, to oppose the parallel import of goods bearing his trademark that have been subject to a large-scale repair or reprocessing, i.e. works that aimed at replacing or reconstructing parts of the goods directly linked to their function or that resulted in altering the constitution of the goods. On the contrary, a trademark proprietor has no legitimate reason, pursuant to Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, to oppose the parallel import of goods bearing his trademark that have been subject to small-scale repair or reprocessing, i.e. works that aimed at eliminating defects or imperfections in parts of the goods not directly linked to their function. It is for the national court to assess the extent of the repair or reprocessing work carried out on a parallel imported trademarked good, as such an assessment is related to the facts of each individual case.

[214] Schuster (1998), p. 64.

[215] Waibel (1977a), p. 183; BGH *GRUR* 1990, 678, 679—*Herstellerkennzeichen auf Unfallwagen*.

[216] Cf. Schuster (1998), pp. 64–65.

[217] So also Schuster (1998), pp. 64–65.

[218] Baumbach and Hefermehl (1985), § 15, Nr. 17 and 47; Waibel (1977a), p. 182.

[219] BGH *GRUR* 1990, 678—*Herstellerkennzeichen auf Unfallwagen*.

[220] OLG München *WRP* 1993, 47—*Aufgearbeitete Kupplungen*.

Change of the Intended Purpose or the Basic Design of a Trademarked Good

A second criterion for classifying the repair or reprocessing of a trademarked good as a change justifying an exception to the rule of EU-wide exhaustion of trademark rights is to the found in the effect of the relevant works on the intended purpose or the basic design of the good. Typical cases of a change of the intended purpose or the basic design of trademarked goods are, according to German case law, the change of the technical performance of electrical energy metres in such a way that they no longer meet the operational requirements for which they have been manufactured,[221] the conversion of long trousers into shorts,[222] and the supplying of a car mascot that had been supplied with a ball joint and a breaking tie with bayonet lock.[223] In the present case, there is no room for applying the doctrine of EU-wide exhaustion of trademark rights, i.e. the proprietor of a trademark may oppose the parallel import of goods bearing the trademark if the intended purpose or the basic structure of the goods has changed without the authorisation of the proprietor.[224] This is because if the intended purpose or the basic structure of trademarked goods has changed, the goods may no longer be used by consumers or ultimate users for the purpose for which they were manufactured under the supervision of the trademark proprietor, i.e. the origin function of the trademark has been adversely affected. Indeed, a change of the purpose for which a trademarked good has been manufactured affects inevitably its identity. Finally, it is stressed that it is for the national court to assess whether the intended purpose or the basic design of a trademarked good imported in parallel has changed, since such an assessment is related to the facts of each individual case.

Deterioration in the Quality Level of a Trademarked Good

Deterioration in the quality level of trademarked goods constitutes also a legitimate reason justifying the prohibition of the parallel import of the goods pursuant to Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009. The wording of the aforesaid provisions is completely clear about this, as it refers explicitly to the case where the condition of trademarked goods is impaired after the goods have been put on the market.[225]

The impairment of the quality of a trademarked good imported in parallel is not, normally, the outcome of repair work, since such work aims at eliminating defects or imperfections of the good.[226] On the contrary, it is usually the outcome of

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[221] RGZ 161, 29, 41—*Zählerersatzteile* (also "*Isaria*"); RG *GRUR* 1942, 79, 82—*Siemens*.

[222] BGH *GRUR* 1996, 271—*Gefärbte Jeans*.

[223] OLG Köln *GRUR* 1998, 54—*Mercedes-Stern*.

[224] So also Schuster (1998), p. 66.

[225] So also Schuster (1998), p. 67.

[226] So also Schuster (1998), p. 66.

reprocessing work. Some examples of impairment of the quality of trademarked goods provided by German case law are the reduction in the stability of a tennis racket grip[227] and the emergence of problems in the functioning or the reduction in the stability of a clock.[228] Jeans is a typical trademarked good whose quality is often changed prior to its parallel import. In the light of German case law, recolouring or bleaching jeans affects adversely their original quality where for the manufacture of the goods were used high-grade colours, whose molecules are able to interact with the molecules of the cotton fabric of the trousers in order to prevent the latter from being discoloured.[229] Moreover, it has been accepted that the reprocessing of jeans affects adversely their quality also where recolouring or bleaching such trousers reduces the resistance of the trousers in their everyday use or in their washing in chemicals and, thus, reduces the lifetime of the trousers. The non-application of the principle of exhaustion of trademark rights in the above-mentioned cases is justified on the ground that the quality of the colour and the resistance of jeans are among the features that refer to the identity of such trousers.[230]

The rule of EU-wide exhaustion of trademark rights does not apply both where the quality of trademarked goods is adversely affected after the goods have been put on the market and where there is a risk of the quality of trademarked goods being adversely affected after the goods have been put on the market. Such a view is based on the ECJ's case law on the legality of parallel imports of repackaged trademarked goods. According to that case law, "The trade mark owner may oppose any repackaging involving a risk of the product inside the package being exposed to tampering or to influences affecting its original condition".[231] To determine whether this applies to a specific case, account must be taken "of the nature of the product".[232] These assessments lead to the conclusion that if a risk of the quality of a trademarked good being adversely affected is present, the trademark proprietor is entitled to oppose the parallel import of the good. Nevertheless, the existence of such a risk cannot be presumed *in abstracto*, but it must be based on the facts of each case. The position that the existence of a risk of the quality of a trademarked good being adversely affected cannot be presumed so that Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 do not apply is confirmed by another formulation included in the above-mentioned case law, i.e. "It is not possible for each hypothetical risk of isolated error to suffice to confer

[227] BGH *GRUR* 1988, 213, 215—*Griffband*.

[228] Cf. OLG Stuttgart, *WRP* 1995, 248, 254—*Rolex*.

[229] BGH *GRUR* 1996, 271, 274—*Gefärbte Jeans*.

[230] OLG Hamburg, WRP 1994, 122—*Jeansüberfärbungen*; OLG Köln, *GRUR* 1991, 51, 52—*Nachträgliche Jeans-Bleichung*.

[231] Case C-232/94, n. 36 above, para. 31; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 49; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 59.

[232] Case C-102/77, n. 31 above, para. 10; Case C-232/94, n. 36 above, para. 31; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 49; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 59.

on the trade mark owner the right to oppose any repackaging of pharmaceutical products in new external packaging".[233]

The conclusion drawn from the foregoing analysis is that where the quality of trademarked goods is adversely affected, as well as where there is a risk of the quality of trademarked goods being adversely affected based on the relevant facts after the goods have been put on the market, there is a legitimate reason within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. On the contrary, a hypothetical risk of the quality of trademarked goods being adversely affected does not constitute such a reason.[234] It is for the national court to assess whether the trademarked goods imported in parallel have been exposed to tampering or to influences adversely affecting their original quality, since such an assessment is related to the facts of each individual case.

Impact of the Repair Work on the Functioning of a Trademarked Good

Another criterion suggested by German legal doctrine and case law for determining whether the original condition of a trademarked good has changed within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 after the good has been repaired is to be found in the question of whether the repair works resulted in a change in the functioning of the good. More specifically, German case law accepted that electrical energy metres are sensitive devices and that even small-scale interventions on their internal condition may affect their precision and reliability.[235] The same holds true for car clutches because a car clutch is a complex functioning unit of mechanical components, the assembly of which determines the identity of the car clutch.[236]

In the light of that case law, it may be argued reasonably that under Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, it is necessary to treat differently small-scale repair work on industrial goods that are produced serially, are subject to deterioration over time, and for that reason are frequently subject to such work, and small-scale repair work on industrial goods whose usability lies in its continued, accurate, and reliable operation.[237] In fact, the continued, accurate, and reliable operation of some industrial goods determines their identity, i.e. their origin from a specific manufacturer. It also determines the reputation of the trademark borne by such goods since it is a criterion for the consumer or ultimate user to buy them.

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[233] Case C-232/94, n. 36, para. 35; Joined Cases C-71/94, C-72/94 and C-73/94, n. 37 above, para. 53; Joined Cases C-427/93, C-429/93 and C-436/93, n. 38 above, para. 63.

[234] See also Schuster (1998), p. 67.

[235] RGZ 161, 29, 41—*Zählerersatzteile* (also *Isaria*); RG *GRUR* 1942, 79, 83—*Siemens*.

[236] OLG München, *WRP* 1993, 47, 48—*Aufgearbeitete Kupplung*.

[237] See also Schuster (1998), p. 68.

Moreover, in accordance with the views expressed with regard to the possibility of the quality of trademarked goods being impaired after the goods have been put on the market, it is stressed that Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 apply also where a risk of the operation of a parallel imported trademarked good being impaired exists. Nevertheless, such a risk cannot be presumed, but it must be based on the relevant facts. Finally, it is pointed out that it is for the national court to assess whether the functioning of a trademarked good imported in parallel has changed or may have changed, since such an assessment is related to the facts of each individual case.

Importance of the Replaced Parts for the Good's Operation

Another criterion suggested by German case law and legal doctrine for determining whether the original condition of a trademarked good has changed within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 after the good has been repaired is to be found in the importance of the part of the good replaced in the framework of the repair work.

In particular, the German Supreme Court accepted an exception to the rule of exhaustion of trademark rights in a case where a car's bodywork had been replaced on the ground that the bodywork of a car is a car's part that is essential for the car to serve its intended purpose and, thus, determines the origin of the car from a specific manufacturer.[238] Likewise, German legal literature acknowledges rightly that Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] and Article 13 (2) of Regulation (EC) 40/94 [now Article 13 (2) of Regulation (EC) 207/2009] apply when an essential part of a trademarked good imported in parallel has been replaced in the framework of repair work on the good. In fact, in such a case, the origin function of the trademark is impaired. On the contrary, there is no risk of the origin function and, of course, of the reputation of the trademark borne by a parallel imported good being adversely affected where the good has been subject to repair work concerning a part of the good not directly related to the intended purpose or functioning of the good.[239] In the latter case, the above-mentioned provisions do not apply[240] because parts of a trademarked good not directly related to the intended purpose or functioning of the good do not determine its origin from a specific manufacturer and, moreover, do not influence consumers' or ultimate users' purchasing decisions.

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[238] BGH *GRUR* 1990, 678, 679—*Herstellerkennzeichen auf Unfallwagen*.

[239] For example, in cases where a car's lamps have been replaced.

[240] So also Schuster (1998), pp. 68–69.

Change in the Colour or Shade of a Trademarked Good

The change of the colour or the shade of the product inside the packaging of a trademarked good is also likely to constitute a legitimate reason within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation 207/2009/EC.

The change of the colour or the shade of the product inside the packaging of a trademarked good is especially common with jeans. As already mentioned, recolouring or bleaching such trousers is a legitimate reason for non-application of the rule of EU-wide exhaustion of trademark rights where it adversely affects the original condition of the trousers.[241] However, a question arises as to whether recolouring or bleaching jeans excludes the applicability of that rule even if it is established that it does not affect the original quality of the trousers. In other words, a question arises as to whether the colour of jeans should be considered to be a factor that determines the identity of such trousers or the reputation of the trademark borne by such trousers.

In this regard, the German Supreme Court has correctly acknowledged that changing the soft shade of jeans into a strong one is an alteration of the identity of such trousers on the ground that the purpose of that change was to satisfy the taste of young people who like jeans with strong shades such as "*Levi's 501 – Jeans*".[242] Jeans that have been painted by using strong shades can no longer be understood that they have been manufactured under the supervision of the trademark proprietor, the reason being that the colour, just like the cutting, the seam, and the textile, is one of the features that determine the identity of this type of trousers.[243] As a result, the alteration of the colour of jeans entails, at least in principle, an adverse effect on the origin function of the trademark borne by the products. Moreover, it entails, at least in principle, damage to the reputation, namely the advertising function, of the trademark borne by the products, as the attractiveness of jeans is based to a great extent on their colour.[244] Based on these considerations, the change of the colour or shade of jeans is, in principle, a legitimate reason for excluding the applicability of the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009.[245] However, in the case in which the new colour or shade of parallel imported jeans belong to the palette of colours or shades used by the trademark proprietor at the time of the parallel importation, it seems appropriate

[241] See *supra* section "Deterioration in the Quality Level of a Trademarked Good".

[242] BGH *GRUR* 1996, 271, 274—*Gefärbte Jeans.*

[243] LG Hamburg *WRP* 1993, 716, 718—*Überfärbte "LEVI'S 501*"; OLG Hamburg *WRP* 1994, 122—*Jeansüberfärbungen*.

[244] For example, the blue colour refers to the trademark "Levis", while the black one to the trademark "Wrangler". The association of the colour of Jeans with the goodwill of the trademark borne by such products is due to the fact that such trousers incorporate specific consumer standards such as the standards of "an American way of life", "Wild West", independence, or individualism. See Schuster (1998), p. 72.

[245] See also Schuster (1998), pp. 72–73.

to accept that no exemption to the rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 exists. Indeed, in such a case, there is no risk of the origin function and the reputation of the trademark borne by the products being impaired,[246] the reason being that the new colour or shade of the products also indicates that the products have been manufactured under the supervision of the trademark proprietor while it is linked, in the mind of the consumer or ultimate user, to the goodwill of the trademark borne by the products. Of course, where the recolouring of jeans entails the alteration of their quality or a risk of their quality being adversely affected, there is always a legitimate reason for excluding the applicability of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 based on a criterion previously mentioned.[247]

The foregoing considerations regarding the legality of the change of the colour or shade of jeans also apply in assessing the legality of bleaching such trousers in the light of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. More specifically, the proprietor of the trademark borne by such trousers may oppose the parallel import of the products if the shade of the products after they have been bleached does not belong to the palette of shades used by the proprietor at the time of the parallel import. On the contrary, the proprietor of the trademark borne by jeans cannot oppose the parallel import of the products if the shade of the products after they have been bleached belongs to the palette of shades used by the proprietor at the time of the parallel import and, in addition, the bleaching did not involve an alteration of the quality of the products or a risk of the quality of the products being altered.[248]

The positions expressed above with regard to jeans apply also to other categories of trademarked goods, particularly cars. The change of the colour or the shade of a trademarked good after it has been put on the market confers an exemption from the rules enshrined in Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009. Nevertheless, this does not apply where the new colour or shade of the good belongs to the palette of colours or shades used by the trademark proprietor at the time of the parallel import and, in addition, the change of the colour or shade did not involve an alteration of the quality of the good or a risk of the quality of the good being altered.

The Origin of the Spare Parts Used for the Repair of a Trademarked Good as a Criterion for Applying Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009

According to an approach, the repair of a trademarked good by using spare parts that have been purchased in a shop authorised by the trademark proprietor does not

[246] See also Schuster (1998), p. 73.

[247] See *supra* section “Deterioration in the Quality Level of a Trademarked Good”.

[248] See also Schuster (1998), pp. 73–74.

allow for an exclusion of the applicability of the rule of exhaustion of trademark rights regardless of the extent of the relevant works or the importance of the part of the good that has been replaced in the framework of the relevant works for the intended purpose of the good. This is because if an independent trader buys spare parts from an authorised (by the trademark proprietor) dealer, this means that the trademark proprietor has consented to a good bearing his trademark being repaired by that trader, regardless of the existence of a risk of the good's identity being impaired. Under this approach, in order for the proprietor of a trademark to prevent the parallel import of goods bearing his trademark that have been repaired by using spare parts from an authorised (by the trademark proprietor) shop, it is required that he has put forward a reservation to that effect, which must be notified in such a way that not only the first buyer but also all the resellers of the goods are aware of it.[249]

Moreover, according to another approach, the repair of a trademarked good by using spare parts that have not been purchased in a shop authorised by the trademark proprietor excludes, in any case, the applicability of the rule of exhaustion of trademark rights. This is because the appropriateness and the quality of spare parts sold by non-authorised (by the trademark proprietor) shops are not guaranteed by the trademark proprietor.[250]

In this author's opinion, none of the above-mentioned approaches can be accepted in the light of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. In determining whether those provisions apply, the origin of the spare parts used for the repair of trademarked goods cannot be a decisive factor in the same way as, in determining whether those provisions apply, the origin of the new packaging in which trademarked goods imported in parallel have been repackaged is not a decisive factor too. On the contrary, in assessing whether Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 applies in this regard, what is necessary to be examined is whether the repair works have been carried out with the consent of the trademark proprietor or whether those works can be considered to be "small scale" or, finally, whether the parts of the goods that have been replaced in the framework of those works can be considered to be "non-essential" for the intended purpose of the goods. Besides, as regards the first of the above-mentioned approaches, it is stressed that if it were to be accepted, this would limit in substance the sales of spare parts by shops authorised by trademark proprietors to trademarked goods not intended to be resold. Resellers of trademarked goods would be obliged to acquire spare parts only from shops not authorised by trademark proprietors. Likewise, if the second of the above-mentioned approaches were to be accepted, this would mean that spare parts intended to be used for the repair of trademarked goods intended to be resold should be acquired only from shops authorised by trademark proprietors.

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[249] On this view, see Decker (1940), p. 126; Kohler (1909), p. 172; von Gamm (1965), § 15, Nr. 28; Waibel (1977b), p. 193.

[250] On this view, see RGZ 161, 29, 41—*Zählerersatzteile* (also *Isaria*).

Based on the foregoing, the origin of the spare parts used for the repair of trademarked goods cannot be a criterion for the legality of the parallel import of the goods, under Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.

The Addition of a Relevant Indication as a Criterion for Applying Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 in the Cases of Repairing or Reprocessing a Trademarked Good

Under WZG, German case law acknowledged that the repair or reprocessing of a trademarked good without the consent of the trademark proprietor could not prevent the exhaustion of trademark rights rule from applying when the undertaking under the supervision of which the relevant works took place added to the packaging of the good an indication for, firstly, the identity of that undertaking and, secondly, the change that the good underwent in the framework of the relevant works.[251] The same position has been supported by German legal literature in the light of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] and Article 13 (2) of Regulation (EC) 40/94 [now Article 13 (2) of Regulation (EC) 207/2009] on the ground that if an indication for, firstly, the identity of the undertaking under whose supervision the repair or the reprocessing of a trademarked good was carried out and, secondly, the change that the good underwent in the framework of the relevant works has been added to the packaging of the good, this prevents the origin, guarantee, and advertising functions of the trademark from being adversely affected. In support of that position, a reference is also made to the case law of the ECJ pertaining to the legality of parallel imports of repackaged trademarked goods. Based on that case law, one of the conditions for the legality of parallel imports of trademarked products that have been repackaged without the authorisation of the trademark proprietor, under Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, is that the new packaging clearly states who repackaged the products (or the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging).[252]

In this author's view, the foregoing view cannot be accepted for two reasons. The first one is that the conditions set out in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions are exceptional, i.e. they have been laid down exclusively with regard to repackaged trademarked goods, and, thus, the establishment of those conditions does not affect the legal

[251] See, from German case law, RGZ 161, 29, 43—*Zählerersatzteile* (also "*Isaria*"); BGH *GRUR* 1990, 678, 680—*Herstellerkennzeichen auf Unfallwagen*; OLG München, *WRP* 1993, 47, 48—*Aufgearbeitete Kupplung*; BGH *GRUR* 1996, 271, 275—*Gefärbte Jeans*; see also von Gamm (1965), § 15, Nr. 20; Waibel (1977b), p. 197.

[252] Schuster (1998), p. 75.

treatment of parallel imports of trademarked goods that have been subject to repair or reprocessing works. The second and strongest reason is that the addition of an indication for, firstly, the identity of the undertaking under whose supervision the repair or the reprocessing of a trademarked good has been carried out and, secondly, the change that the good has undergone in the framework of the relevant works does not exclude the possibility of the origin function and the reputation of the trademark borne by the good being impaired indirectly, provided, of course, that Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009 are not applicable based on the criteria analysed above. Indeed, if it were possible to avoid the possibility of the origin function and the reputation of the trademark borne by parallel imported products that have been repackaged without the authorisation of the trademark proprietor being indirectly adversely affected by stating the name of the undertaking that repackaged the goods (or the name of the undertaking at whose order and on whose instructions the repackaging has been carried out, and which assumes responsibility for the repackaging), then another condition for the legality of parallel imports of trademarked products that have been repackaged without the authorisation of the trademark proprietor (also set out in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* decisions), namely the condition that the repackaging cannot affect the original condition of the product inside the packaging, would be inexplicable. On the contrary, the analysis of the third condition laid down in those decisions leads to the conclusion that the Court considers that stating the name of the undertaking that repackaged a trademarked product imported in parallel aims at ensuring greater protection for the origin function of the trademark.[253] Therefore, as it is inferred from the judgments in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, such a statement cannot guarantee in itself the protection of the origin function and the reputation of the trademark borne by parallel imported products that have been repackaged without the authorisation of the trademark proprietor.

In the light of the foregoing, therefore, it is not possible to recognise, under Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, the legality of the parallel import of trademarked goods that have been subject to repair or reprocessing works without the authorisation of the trademark proprietor solely on the condition that an indication for, firstly, the identity of the undertaking under the supervision of which the relevant works was carried out and, secondly, the change that the good underwent in the framework of the relevant works has been added to the packaging of the goods.

[253] See *supra* section “Second Condition: The Repackaging Cannot Affect the Original Condition of the Product Inside the Packaging”.

10.2.3.3 Remarks

Based on the criteria suggested by German legal literature and case law, a trademark proprietor is entitled to prevent the parallel import of goods bearing his trademark, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, if the goods have been subject to repair or reprocessing works without the authorisation of the trademark proprietor in the cases where:

i) essential parts of the goods (i.e., parts of the goods directly linked to their functioning or intended purpose) have been either replaced or reconstructed, or the constitution of the goods has changed;
ii) the intended purpose or the basic structure of the goods has changed;
iii) the original quality of the goods has deteriorated, or a risk of such a deterioration (based on the relevant facts) has arisen;
iv) the functioning of the goods has changed, or a risk of the functioning of the goods being changed (based on the relevant facts) has arisen;
v) parts of the goods that are essential for their intended purpose have been replaced;
vi) the colour or shade of the goods has changed, and, at the moment of the parallel importation, the new colour or shade does not belong to the palette of colours or shades used by the trademark proprietor;

On the contrary, a trademark proprietor cannot prevent the parallel import of goods bearing his trademark, pursuant to Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, if the goods have been subject to repair or reprocessing works without the authorisation of the trademark proprietor in the cases where:

i) defects or imperfections in non-essential parts of the goods (i.e., parts of the goods not directly linked to their functioning or intended purpose) have been eliminated;
ii) non-essential parts of the goods have been replaced;
iii) the colour or shade of the goods has changed, and, at the moment of the parallel importation, the new colour or shade belongs to the palette of colours or shades used by the trademark proprietor, and moreover the change of the colour or shade did not involve an alteration of the original quality of the goods or a risk of the original quality of the goods being altered.

Finally, it is worth mentioning that the Court has acknowledged indirectly that the rule enshrined in Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] applies to trademarked goods that have been subject to repair or maintenance works that do not involve a risk of the origin function and the reputation of the trademark borne by the goods being adversely affected.[254]

[254] Cf. the facts in Case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v. Ronald Karel Deenik*, [1999] ECR I-905.

10.3 Damage to, or Risk of Damage to, or Unfair Exploitation of the Reputation of the Trademark Borne by Parallel Imported Goods

10.3.1 Introduction

On several occasions, the parallel importer or the independent trader of trademarked goods uses the trademark in a way that damages the reputation of the trademark or creates a risk of that reputation being damaged or constitutes an unfair exploitation of that reputation, even if no change in the original condition of the good without the authorisation of the trademark proprietor took place.

According to the decisions in *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova,* if the presentation of a trademarked good that has been repackaged without the authorisation of the trademark proprietor is such as to be liable to damage the reputation of the trademark or of its owner, the trademark proprietor is entitled to oppose the parallel import of the good, even without the existence of a risk of the trademark's origin function being adversely affected.[255] Based on this observation, it would be absurd if the proprietor of a trademark were not able to oppose parallel imports of goods bearing his trademark in any case where the use of the trademark by the parallel importer or any independent reseller entails damage to the reputation of the trademark or a risk of damage to that reputation or an unfair exploitation of that reputation.[256]

Indeed, as confirmed by the ECJ's case law, the proprietor of a trademark is entitled to oppose parallel imports of goods bearing his trademark, in the light of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, where the use of the trademark by the parallel importer or any independent reseller damages or is liable to damage the reputation of the trademark or constitutes an unfair exploitation of that reputation even if no change in the original condition of the goods (both in the original condition of the packaging and the original condition of the product inside the packaging) took place without the authorisation of the trademark proprietor. Such cases may arise either within the framework of the advertising of the parallel importer or any independent reseller or within the circumstances under which the goods imported in parallel are marketed.

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[255] See *supra* section "Third Condition: The New Packaging Clearly States Who Repackaged the Product and the Name of the Manufacturer".

[256] It is to be noted that, in the context of the ECJ's case law on the legality of parallel imports of trademarked pharmaceutical products, the term "reputation" is wide in scope, namely the term refers not only to trademarks with a reputation within the meaning of Articles 4 (3) and (4) (a) and 5 (2) of Directive 89/104/EEC [now Articles 4 (3) and (4) (a) and 5 (2) of Directive 2008/95/EC] and Articles 8 (5) and 9 (1) (c) of Regulation (EC) 40/94 [now Articles 8 (5) and 9 (1) (c) of Regulation (EC) 207/2009] but also to common trademarks.

10.3.2 *Damage to, or Risk of Damage to, or Unfair Exploitation of the Reputation of the Trademark Borne by Parallel Imported Goods Within the Framework of the Independent Trader's Advertising*

Advertising is the most effective tool for the commercial promotion of a trademarked good. In fact, advertising makes not only the first sale but also any resale of a trademarked good much easier. Safeguarding the effet utile of Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] was precisely the reason why the Court acknowledged in its decision in *Christian Dior SA v. Evora*[257] that the right to advertise a trademarked good falls within the scope of that provision.[258] Indeed, as observed by the ECJ, an independent reseller of trademarked goods may use the modes of advertising that are customary in his trade sector, even if they are not the same as those used by the trademark owner himself or by his approved retailers.[259] Nevertheless, in the same decision, the Court stressed that the proprietor of a trademark may, under Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], oppose the use of his mark by an independent reseller for advertising purposes if such a use seriously damages or is liable to seriously damage the reputation of the trademark.[260] As regards luxury goods, the Court pointed out that an independent reseller must endeavour to prevent his advertising from affecting the value of the trademark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.[261] Moreover, that advertising must not create a risk of such damage.[262] Finally, in the Court's view, the use of the trademark borne by luxury products by an independent reseller may cause serious damage to the reputation of that trademark if, in an advertising leaflet distributed by him, the reseller did not take care to avoid putting the trademark in a context that might seriously detract from the image that the trademark owner has succeeded in creating around his trademark.[263]

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[257] Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV*, [1997] ECR I-6013.

[258] Case C-337/95, n. 257 above, para. 37. The freedom of independent traders to use the marks borne by parallel imported products in their advertising has been especially stressed by the Court. See Case C-373/90, *Criminal proceedings against X*, [1992] ECR I-131, para. 12 and Case C-44/01, *Pippig Augenoptik GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH and Verlassenschaft nach dem verstorbenen Franz Josef Hartlauer*, [2003] ECR I-3095, para. 63.

[259] Case C-337/95, n. 257 above, para. 46.

[260] Case C-337/95, n. 257 above, paras 44 and 46.

[261] Case C-337/95, n. 257 above, para. 45.

[262] Case C-337/95, n. 257 above, para. 44, which refers to a use of the trademark that "could damage" its reputation.

[263] Case C-337/95, n. 257 above, para. 47.

The ability of a trademark proprietor to oppose the use of the trademark in the advertising carried out by an independent trader, if that advertising constitutes an unfair exploitation of the reputation of the trademark, was confirmed by the Court in *BMW v. Deenik*.[264]

More specifically, it follows from the definition of the specific subject matter of the trademark right given by the ECJ in the decision in *Centrafarm v. Winthrop*[265] that the protection of the proprietor of the trademark against the possibility of the reputation of the trademark being unfairly exploited comes within that subject matter. Nevertheless, in that decision, the protection of the proprietor of the trademark against the possibility of the reputation of the trademark being unfairly exploited was associated with the illegal affixing of the trademark to a product, i.e. the impairment of the trademark's origin function. On the contrary, in the decision in *BMW v. Deenik,* the Court acknowledged that Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] allows the proprietor of a trademark to oppose the use of the trademark by an independent trader with regard to goods that have been legally put on the market (i.e., goods that have been put on the market in the European Union by the proprietor or with his consent) where that use constitutes an unfair exploitation of the reputation of the trademark.[266] Such an unfair exploitation can occur if the trademark is used in the independent trader's advertising in such a way that it may give rise to the impression that there is a commercial connection between the independent trader and the trademark proprietor and, in particular, that the independent trader's business is affiliated to the trademark proprietor's distribution network or that there is a special relationship between the two undertakings.[267] On the contrary, the mere fact that the independent trader derives an advantage from using the trademark in that advertisements for the sale of goods covered by the mark, which are in other respects honest and fair, lend an aura of quality to his own business does not entail an unfair exploitation of the reputation of the trademark.[268]

Finally, in its recent decision in *Portakabin v. Primakabin*,[269] the Court confirmed the case law established in *Christian Dior SA v. Evora* and *BMW v. Deenik*. More precisely, in the aforementioned decision, the Court held that the proprietor of a trademark may oppose, in the light of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], the use of the trademark in an independent reseller's advertising if that use seriously damages or is liable to seriously damage

[264] Case C-63/97, *Bayerische Motorenwerke AG (BMW) and BMW Nederland BV v. Ronald Karel Deenik*, [1999] ECR I-905.

[265] Case C-16/74, n. 56 above, para. 8. See also Case C-63/97, n. 264 above, para. 52, with a reference to the *HAG II* decision, which confirms the definition of the specific subject matter of the trademark right given in the *Centrafarm v. Winthrop* judgment.

[266] Case C-63/97, n. 264 above, para. 52.

[267] Case C-63/97, n. 264 above, para. 51.

[268] Case C-63/97, n. 264 above, para. 53.

[269] Case C-558/08, *Portakabin Ltd and Portakabin BV v. Primakabin BV*, [2010] ECR I-6963.

the reputation of the trademark or gives the impression that there is a commercial connection between the reseller and the trademark proprietor and, in particular, that the reseller's business is affiliated to the proprietor's distribution network or that there is a special relationship between the two undertakings. This applies regardless of whether the original condition of the trademarked goods marketed by the reseller has been subject to a change without the authorisation of the trademark proprietor. More specifically, according to the views expressed in the above-mentioned decision, the fact that an independent reseller uses another person's trademark with additional wording indicating that the relevant goods are being resold, such as "used" or "second hand", does mean in itself that the independent reseller's advertising creates the impression that the reseller and the trademark proprietor are economically linked or that such advertising is seriously detrimental to the reputation of that mark.[270] This is because the sale of second-hand goods under a trademark is a well-established form of business, with which the average consumer will be familiar.[271] Moreover, based on the above-mentioned decision, in those circumstances in which an independent reseller specialises in the resale of goods under another person's trademark, the reseller cannot be prohibited from using that mark in order to advertise its resale activities, which include—apart from the sale of second-hand goods under that mark—the sale of other second-hand goods, unless the resale of those other goods risks, in the light of their volume, their presentation or their poor quality, seriously damaging the image that the proprietor has succeeded in creating for his trademark.[272]

Therefore, based on the judgments in *Christian Dior SA v. Evora, BMW v. Deenik*, and *Portakabin v. Primakabin,* the proprietor of a trademark cannot, in principle, oppose the use of the trademark for advertising purposes by a parallel importer or an independent reseller. An independent trader may use in his advertising the trademark borne by the parallel imported goods that he markets, even if the modes of advertising that are customary in his trade sector are not the same as those used by the trademark owner himself or by his approved retailers. Nevertheless, a weighing up of the legitimate interest of the proprietor of a trademark in being protected against resellers using his trademark for advertising purposes in a manner that could damage the reputation of the trademark and the reseller's legitimate interest in being able to resell the goods in question by using advertising methods that are customary in his sector of trade does not entail the legality of any trademark use by an independent trader for advertising purposes.[273] In particular, such a weighing up results in recognising that the proprietor of a trademark has a legitimate reason to oppose parallel imports of goods bearing the trademark, within the meaning of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, where the use of the trademark by an independent trader for

[270] Case C-558/08, n. 269 above, para. 84.

[271] Case C-558/08, n. 269 above, para. 84.

[272] Case C-558/08, n. 269 above, para. 91.

[273] Cf. Case C-337/95, n. 257 above, paras 44 and 46.

advertising purposes entails a serious damage or a risk of a serious damage to the reputation of the trademark or an unfair exploitation of that reputation.

10.3.3 Damage to, or Risk of Damage to, or Unfair Exploitation of the Reputation of the Trademark Borne by Parallel Imported Goods Within the Framework of the Circumstances Under Which the Goods Are Marketed

A trademark borne by parallel imported goods may be used in such a way that damages or is liable to damage the reputation of the trademark or constitutes an unfair exploitation of that reputation even if the original condition of the goods has not changed without the authorisation of the trademark proprietor not only in the framework of the independent trader's advertising but also in the framework of the circumstances under which the goods are marketed. More specifically, in the recent decision in *Copad SA v. Christian Dior,* the Court recognised, in the light of decisions in *Christian Dior SA v. Evora* and *BMW v. Deenik*,[274] that the resale of parallel imported luxury goods by a discount store is possible to damage the reputation of the trademark borne by the goods in cases where the trademark proprietor has established a selective distribution system in the Member State of importation, and, thus, such a resale may be prevented by the trademark proprietor under Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC].[275] Indeed, for such a resale to be prevented, it suffices that a risk of damage to the reputation of the trademark has arisen.[276] The criteria based on which the national court should determine whether such a resale damages the reputation of the trademark or creates a risk of the trademark's reputation being damaged mentioned indicatively are the parties to whom the goods are resold and the specific circumstances in which the luxury goods are put on the market.[277] Furthermore, in his Opinion in *Christian Dior SA v. Evora,* Advocate General Jacobs identified a situation in which it may be justifiable to accept that an undertaking should never be able to market luxury cosmetic products unless it changed its very nature. In particular, as observed by Advocate General Jacobs, "a seedy shop in a red-light district might sell items favoured by those frequenting such districts and it might stock luxury perfumes alongside as part of a gift section; it might even advertise those perfumes in a manner customary to its trade. It is difficult to imagine in that

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[274] Case C-59/08, *Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL)*, [2009] ECR I-3421, paras 55–56.

[275] Case C-59/08, n. 274 above, para. 57.

[276] Case C-59/08, n. 274 above, para. 56, which refers to a use of the trademark that "could damage" its reputation.

[277] Case C-59/08, n. 274 above, para. 58.

situation what such a shop could do by way of marketing so as to overcome damage to the aura of prestige and luxury usually surrounding such perfumes".[278]

Therefore, the Court's case law itself suggests that it is possible that the circumstances in which parallel imported goods are marketed entail damage or a risk of damage to the reputation of the trademark borne by the goods and, hence, justify the prohibition of the parallel importation by the trademark proprietor under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009. The location and the design of the shop of the independent trader, the type of the other goods marketed by the independent trader, the adequacy of staff numbers and of skill levels of staff employed by the independent trader, the usual customers of the independent trader, and the way in which the goods imported in parallel are presented in the windows of the independent trader's shop have been mentioned indicatively in legal doctrine as such circumstances.[279] Moreover, in the light of the ECJ's case law, the removal or the elimination of the identification numbers placed on trademarked goods imported in parallel, the addition of the parallel importer's trademark to the packaging of such goods, or the removal of the trademark borne by such goods may, taking into account the particular circumstances of each case, also be considered as circumstances under which damage to the reputation of the trademark borne by such goods or a risk of such damage may arise.[280] Finally, in the light of the ECJ's recent decision in the *L'Oréal v. eBay* case and the Opinion of Advocate General Jääskinen in that case, the removal of the packaging of a parallel imported trademarked product[281] or the removal of information accompanying the product in compliance with EU measure relating to product safety or consumer protection[282] may also entail damage or a risk of damage to the reputation of the trademark borne by the product.

In any event, the circumstances in which goods imported in parallel are marketed should be examined more closely in order to determine whether they entail damage or a risk of damage to the reputation of the trademark borne by the goods where the trademark proprietor has established a selective distribution network in the importing Member State. This is because trademarked goods marketed through selective distribution networks are, in general, goods that are characterised by an allure or a prestigious image that bestows on those goods an aura of luxury.

Finally, it is pointed out that the conditions in which goods imported in parallel are marketed must not, just like the advertising of their trader, entail an unfair exploitation of the reputation of the trademark borne by the goods. Otherwise, the trademark proprietor has a legitimate reason within the meaning of Article 7 (2) of

[278] Opinion of Advocate General Jacobs in Case C-337/95, n. 257 above, point 52.

[279] See also Unglaub (2001), pp. 204–205.

[280] Cf. Case C-348/04, n. 48 above, paras 45–47.

[281] Cf. Case C-324/09, *L'Oréal SA and Others v. eBay International AG and Others*, [2011] ECR I-6011, in particular paras 78–79.

[282] Opinion of Advocate General Jääskinen in Case C-324/09, n. 281 above, point 76.

Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009 to prohibit the parallel import. More precisely, the conditions in which trademarked goods imported in parallel are marketed must not give the impression that there is a commercial connection between the parallel importer or independent reseller and the trademark proprietor and, in particular, that the parallel importer's or independent reseller's business is affiliated to the proprietor's distribution network or that there is a special relationship between the two undertakings.[283] Such an impression may be considered to be given, for example, where the parallel importer or independent reseller has placed in his shop window the trademark borne by the goods or where he uses that trademark in brochures of his business not aimed at advertising the goods[284] or where he has affixed his trademark to the packaging of the goods.[285]

10.3.4 Remarks

Therefore, in the light of the case law established in the *Christian Dior SA v. Evora, BMW v. Deenik, Copad SA v. Christian Dior*, and *Portakabin v. Primakabin* judgments, the following views may be expressed:

– The proprietor of a trademark has a legitimate reason, within the meaning of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, to oppose the use of his trademark by a parallel importer or an independent reseller where that use entails damage to the reputation of the trademark or a risk of damage to that reputation or an unfair exploitation of that reputation, even if the original condition of the parallel imported goods has not changed without the authorisation of the trademark proprietor.
– A damage to the reputation of the trademark borne by parallel imported goods or a risk of such damage or an unfair exploitation of that reputation may arise either in the framework of the independent trader's advertising or in the framework of the circumstances under which the goods are marketed.
– For determining whether the use of the trademark borne by parallel imported goods in the framework of the independent trader's advertising or in the framework of the circumstances under which the goods are marketed entails damage to the reputation of the trademark or a risk of damage to that reputation or an unfair exploitation of that reputation, it is necessary to weigh up the legitimate interest of the trademark proprietor in being protected against independent traders using his trademark in a manner that damages or is liable to damage the reputation of the trademark or constitutes an unfair exploitation of that

[283] Cf. Case C-63/97, n. 264 above, para. 51.

[284] See Antonopoulos (2005), p. 480, Nr. 594; Marinos (1996), p. 237, Nr. 52; Rokas (1993).

[285] Cf. Opinion of Advocate General Sharpston in Case C-348/04, n. 48 above, point 63.

reputation and the independent trader's interest in being able to resell the goods in question by using methods that are customary in his sector of trade.[286]

– The fact that the trademark is used in an independent trader's advertising in such a way that it may give rise to the impression that there is a commercial connection between that trader and the trademark proprietor and, in particular, that that trader's business is affiliated to the trademark proprietor's distribution network or that there is a special relationship between the two undertakings constitutes an unfair exploitation of the reputation of the trademark.[287]
– As regards the possibility that the use of a trademark by an independent trader entails damage or a risk of damage to the reputation of the trademark, it is pointed out that, in the light of the ECJ's case law, there is a substantial difference between the case where such a use is carried out in the framework of the independent trader's advertising and the case where such a use is carried out in the framework of the circumstances under which the goods imported in parallel are marketed. More specifically, it is clear from the decisions in *Christian Dior SA v. Evora* and *Portakabin v. Primakabin* that the proprietor of a trademark may, under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, oppose the use of his trademark by an independent trader for advertising purposes only if such a use seriously damages or is liable to seriously damage the reputation of the trademark.[288] On the contrary, it is also clear from the *Copad SA v. Christian Dior* and *L'Oréal v. eBay* decisions that any damage or any risk of damage to the reputation of the trademark borne by parallel imported goods caused as a consequence of the use of the trademark in the framework of the circumstances under which the goods in question are marketed constitutes a legitimate reason within the meaning of the previously mentioned provisions.[289] In this author's opinion, the fact that the proprietor of a trademark is able to oppose the use of his trademark by an independent trader for advertising purposes only if such a use entails a serious damage to the reputation of the trademark or a risk of serious damage to that reputation rests on grounds related to the assurance of the effet utile of Article 34 of the TFEU. In fact, if parallel trade in trademarked goods were possible to be prohibited even in cases where the use of a trademark by an independent trader for advertising purposes entails a minor damage to the reputation of the trademark, the possibilities of the trader in question promoting the goods he markets would be limited excessively, which, in practice, amounts to a significant impediment to that trade. Besides, minor damages to the reputation of a trademark during its use in advertising are often controversial, and this should not be detrimental to parallel trade, whose freedom is guaranteed by the TFEU (Article 34).

[286] Cf. Case C-337/95, n. 257 above, para. 44; Case C-59/08, n. 274 above, para. 56.

[287] Case C-63/97, n. 264 above, para. 51.

[288] Case C-337/95, n. 257 above, para. 46; Case C-558/08, n. 269 above, para. 91.

[289] Case C-59/08, n. 274 above, para. 57.

– It is for the national court to assess whether the use of the trademark borne by parallel imported goods entails damage to the reputation of the trademark or a risk of damage to that reputation or an unfair exploitation of that reputation, since such an assessment is related to the facts of each individual case.[290]

10.4 Bypassing the Selective Distribution Network as a Legitimate Reason Within the Meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009

According to a view expressed in German legal literature, the rules of Article 7 (1) of Directive 89/104/EEC and Article 13 (1) of Regulation (EC) 40/94 [now Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009] do not apply where the trademark proprietor uses a selective distribution network, which has been found to be consistent with EU competition law.[291] The arguments put forward to support such a view are, firstly, that the disruption to a selective distribution system by an independent trader damages the reputation of the trademark borne by the goods distributed through that system and also the goodwill of the business of the trademark proprietor[292]; secondly, that the degree of imperviousness of a selective distribution system depends on the efficiency of the business of the trademark proprietor, and, therefore, it is worth being protected against the competition caused by independent traders[293]; and, thirdly, that trademark law should be in line with competition law, i.e. trademark law should protect anything acknowledged as legal in the light of competition law.[294]

However, as have been shown, the Court has not adopted the approach described above. Indeed, both in the *Christian Dior SA v. Evora* and the *Copad SA v. Christian Dior* cases, the trademark proprietor used a selective distribution system to market his goods. In either of those cases, the Court did not accept that the disruption to a selective distribution system that has been found to be compatible with EU competition law by an independent trader constitutes a "legitimate

[290] Case C-337/95, n. 257 above, para. 48; Case C-63/97, n. 264 above, para. 55; Case C-59/08, n. 274 above, para. 57; Case C-558/08, n. 269 above, para. 93.

[291] See Fezer (2009), § 24 MarkenG, p. 1653, Nr. 68; Sack (1999), pp. 470–471; Schuster (1998), pp. 214, 218. Nevertheless, it is stressed that, when WZG was in force, the dominant view in German legal literature rejected the protection of selective distribution systems against disruptions by independent traders under trademark law. See Baumbach and Hefermehl (1985), § 15 WZG, p. 678, Nr. 68; Stuckel (1991), p. 193; Ulmer (1987), p. 302.

[292] Schuster (1998), pp. 214, 218.

[293] Fezer (2009), § 24 MarkenG, p. 1653, Nr. 68. *Fezer* argued, on many occasions, in favour of protecting the imperviousness of selective distribution systems in the light of trademark law. See Fezer (1990, 1991, 1999).

[294] Sack (1999), pp. 470–471.

reason" within the meaning of Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC]. Therefore, the approach described above has been rebutted by the Court itself.

Besides, apart from the decisions in *Christian Dior SA v. Evora* and *Copad SA v. Christian Dior,* there are, in this author's view, arguments against the approach described above. Those arguments are the following.

Firstly, the validity of a selective distribution system in the light of competition law does not mean automatically that the system is enforceable against third parties, including parallel importers. More specifically, as stressed by the ECJ in the *VAG/SYD – Consult* judgment, the national case law on unfair competition under which a selective distribution system that is compatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU] is not enforceable against third parties unless it is impervious is compatible with Article 85 (1) of the EEC Treaty [now Article 101 (1) of the TFEU].[295] As it becomes clear from the ECJ's case law itself, that is to say, the validity of a selective distribution system from the point of view of EU competition law (Article 101 of the TFEU and Commission Regulation (EU) No. 330/2010 of 20 April 2010 "on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices"[296]) does not necessarily mean that it needs to be acknowledged that the system may be enforced against third parties, including parallel importers, without any additional requirements. Therefore, the positive evaluation of a selective distribution system from the point of view of competition law does not necessarily lead to claims in the light of other law areas such as trademark law.[297]

Secondly, the compatibility of a conduct with Article 101 of the TFEU and Regulation (EC) 330/2010 does not automatically lead to claims in favour of its subject against others. Indeed, the fact that a conduct is compatible with Article 101 of the TFEU simply means that its subject is not at risk for receiving a fine for breach of that Article from the European Commission. However, Article 101 of the TFEU cannot serve as a basis for creating claims in favour of the subject of the conduct.[298] Also, as for Commission Regulation (EU) No. 330/2010, it is observed that the ECJ has clarified with regard to a Regulation concerning the application of Article 85 (3) of the EEC Treaty [now Article 101 (3) of the TFEU] and, more specifically, Regulation (EEC) 123/85[299] that such Regulation did not serve to

[295] Case C-41/96, *VAG-Händlerbeirat eV v. SYD-Consult*, [1997] ECR I-3123, paras 13–14.

[296] OJ L 102/1, of 23.04.2010. Regulation 330/2010 replaced Commission Regulation (EC) No. 2790/1999 of 22 December 1999 "on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices" (OJ L 336/21, of 29.12.1999).

[297] Cf. also Unglaub (2001), p. 218.

[298] Cf. also Unglaub (2001), p. 220.

[299] Commission Regulation (EEC) No. 123/85 of 12 December 1984 "on the application of Article 85 (3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements" (OJ L 15/16, of 18.01.1985). Regulation (EEC) No. 123/85 has been repealed and replaced by Commission Regulation (EC) No. 1475/95 of 28 June 1995 "on the application of Article 85 (3) of

regulate the activities of third parties operating in the market outside the framework of distribution agreements. In contrast, according to the Court, it was concerned only with the content of agreements that parties tied to a distribution network for a specified product might lawfully conclude under Community (now EU) competition law.[300] In the light of this case law, it is not possible to assert that the validity of a selective distribution system in the light of Regulation (EC) 330/2010 affects the legality of the conduct of an independent trader who operates in the market outside the framework of that system.[301]

Thirdly, the applicability of Article 101 of the TFEU does not exclude the applicability of Articles 34 and 36 of the TFEU, i.e. Article 101 of the TFEU and Articles 34–36 of the TFEU apply cumulatively. The fact that a conduct has been found to be compatible with Article 101 of the TFEU does not exclude the examination of the legality of that conduct under Articles 34 and 36 of the TFEU.[302] As has been expressly stated by the Court, the general principles of the EEC Treaty (now TFEU) and the general rules of the EEC Treaty (now TFEU), including the rules on the free movement of goods, must be applied in so far as they are not excluded.[303] Besides, the cumulative application of Articles 30–36 of the EEC Treaty and Articles 85–86 of the EEC Treaty (now Articles 34–36 and 101–102 of the TFEU) has been acknowledged by the ECJ in its case law on the legality of parallel imports of trademarked goods.[304]

Fourthly, the specific subject matter of the trademark right does not include the protection of the goodwill or any other asset of a business. It only includes rights related to the protection of the functions of the trademark. Indeed, it is clear from the analysis of the doctrine of specific subject matter of the trademark right that that doctrine aims exclusively at protecting the origin, guarantee, and advertising functions of the trademark, as the extent of the protection of those functions is determined by the ECJ's case law.[305]

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the Treaty to certain categories of motor vehicle distribution and servicing agreements" (OJ L 145/25, of 29.06.1995).

[300] Case C-226/94, *Grand Garage Albigeois SA, Etablissements Marlaud SA, Rossi Automobiles SA, Albi Automobiles SA, Garage Maurel & Fils SA, Sud Auto SA, Grands garages de Castres, Garage Pirola SA, Grand Garage de la Gare, Mazametaine automobile SA, Etablissements Capmartin SA and Graulhet Automobiles SA v. Garage Massol SARL*, [1996] ECR I-651, paras 17–18; Case C-309/94, *Nissan France SA, Serda SA, Lyon Vaise Auto SARL, Garage Gambetta SA and Lyon Automobiles SA v. Jean-Luc Dupasquier du Garage Sport Auto, Star'Terre SARL and Aqueducs Automobiles SARL*, [1996] ECR I-677, paras 17–18; Case C-128/95, *Fontaine SA, Garage Laval SA, Fahy SA, Renault Lyon Ouest FLB Automobiles SA, Diffusion Vallis Auto SA and Horizon Sud SA v. Aqueducs Automobiles SARL*, [1997] ECR I-967, paras 14–15.

[301] Cf. also Unglaub (2001), pp. 219–220.

[302] See *supra* n. 174.

[303] Case C-167/73, *Commission of the European Communities v. French Republic*, [1974] ECR 359, para. 28.

[304] Case C-349/95, n. 61 above, para. 43; Case C-276/05, n. 107 above, para. 36.

[305] On the doctrine of subject matter of the trademark right, see *supra* Sect. 7.3.3.

Fifthly, the general assumption that the disruption to a selective distribution system damages, by definition, the reputation of the trademark proprietor who organised the system overlooks the fact that trademark proprietors who have organised selective distribution systems sell, quite often, products to independent traders.[306] The fact that such sales constitute, normally, breaches of those proprietors' contractual obligation vis-à-vis selected dealers about non-supply goods to independent traders does not affect the application of the free movement of goods principle on which the freedom of parallel trade is based.[307] It is true that, in the light of the specific circumstances of each individual case, the use of the trademark borne by parallel imported goods in the independent trader's advertising or in the framework of the circumstances under which the goods are marketed may, in the view of the national court, entail damage or a risk of damage to the reputation of that trademark or constitute an unfair exploitation of that reputation, but this is a different question.[308]

Therefore, the disruption to a selective distribution network by an independent trader is not a "legitimate reason" within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.

10.5 Specific Issues Concerning Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009

10.5.1 The Legal Effects of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009

The existence of a legitimate reason justifying an exception to the rule of EU-wide exhaustion of the national or Community trademark right means that the trademark proprietor may oppose the parallel import of goods bearing his trademark, even if the goods have been put on the market in the EEA by the trademark proprietor or with his consent. In such a case, the parallel import is an infringement of the trademark right. Given that Directive 2008/95/EC and Regulation (EC) 207/2009 do not provide for sanctions in cases where a parallel import is not legal under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, it is incumbent on the national authorities to adopt appropriate measures to

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306 So also Unglaub (2001), p. 215. As for the acquisition of goods by parallel importers see *supra* Sect. 1.1.

307 Cf. Case C-58/80, *Dansk Supermarked A/S v. A/S Imerco*, [1981] ECR 181, para. 17.

308 The need for taking into consideration the specific circumstances of each individual case when applying Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC] has been stressed on several occasions by the Court. See Case C-337/95, n. 257 above, para. 46; Case C-63/97, n. 264 above, para. 55; Case C-59/08, n. 274 above, para. 57; Case C-558/08, n. 269 above, para. 91.

deal with such a situation. Those measures must be not only proportionate but also sufficiently effective and sufficiently deterrent to ensure that Directive 2008/95/EC and Regulation (EC) 207/2009 are fully effective.[309] The trademark proprietor may, therefore, invoke against the parallel importer the civil protection provided for by the legislation of the Member State of importation if the parallel import is not legal in the light of the national provision that transposes the provision of Article 7 (2) of Directive 2008/95/EC into the law of that State or Article 13 (2) of Regulation (EC) 207/2009. According to the ECJ's case law, the amount of the financial remedies imposed by the national court in cases where a parallel importer marketed trademarked products that have been repackaged without the consent of the trademark proprietor without one of the conditions set out in the decisions in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* being fulfilled must be determined in the light of, in particular, the extent of damage to the trademark proprietor caused by the parallel importer's infringement and in accordance with the principle of proportionality.[310] Besides, as has been observed by the Court, a national measure under which a trademark proprietor is entitled to claim financial remedies on the same basis as if the goods had been spurious where a parallel importer has marketed, without one of those conditions being met, trademarked products that have been repackaged without the consent of the trademark proprietor is not in itself contrary to the principle of proportionality.[311]

10.5.2 Prohibition of Parallel Imports of Trademarked Goods in the Light of the Law of Unfair Competition or by Invoking Other Intellectual Property Rights

10.5.2.1 Introduction

The possibility of prohibiting a parallel import of trademarked goods under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 does not exclude the cumulative application of laws other than trademark law, in the light of which it is possible to achieve the same result. Moreover, the fact that the proprietor of a trademark is not able to prevent goods bearing his trademark from being imported in parallel under one of the above-mentioned provisions does not exclude the possibility of prohibiting the parallel import under laws other than trademark law. More specifically, the prohibition of a parallel import of

[309] Cf. with regard to Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], Case C-348/04, n. 48 above, para. 59.

[310] Cf. with regard to Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], Case C-348/04, n. 48 above, para. 63.

[311] Cf. with regard to Article 7 (2) of Directive 89/104/EEC [now Article 7 (2) of Directive 2008/95/EC], Case C-348/04, n. 48 above, para. 63.

trademarked goods may be sought not only in the light of the above-mentioned provisions but also, cumulatively or alternatively to those provisions, in the light of provisions of unfair competition law or provisions concerning the protection of other intellectual property rights.

10.5.2.2 Prohibition of Parallel Imports of Trademarked Goods in the Light of the Law of Unfair Competition

Provisions of unfair competition law are often invoked, cumulatively or alternatively to trademark law provisions, by trademark proprietors in order to prevent parallel imports of trademarked goods.

As has been pointed out expressly by the Court in the light of Articles 85 of the EEC Treaty (now Article 101 of the TFEU) and Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU), parallel importation of trademarked goods itself does not constitute an improper or unfair act even if the parallel trader acquired the goods he markets from an authorised seller in breach of the latter's contractual obligation vis-à-vis his supplier about non-supply goods to independent traders. Specific circumstances distinct from the parallel importation itself must be met in order to exclude the latter under unfair competition law.[312] Besides, considering parallel trade in trademarked goods as an unfair commercial practice would render Articles 101 and 102 of the TFEU and, in addition, Articles 34 and 36 of the TFEU ineffective. The reason is that a situation that would be consistent with the aforesaid Articles would be invalidated via the national laws of Member States. It is for the national courts of the Member States' case law to identify the specific circumstances allowing for the exclusion of parallel imports of trademarked goods in the light of unfair competition law. However, at this point, it is necessary to make particular reference to a case where the prohibition of the parallel import of trademarked goods is possible only in the light of unfair competition law and not in the light of trademark law.

It is the case where the trademarked goods imported in parallel differ in terms of quality (or other characteristics) from the similar goods marketed by the trademark proprietor in the importing Member State. Based on the considerations included in the decision in *IHT Internationale Heiztechnik v. Ideal-Standard,* a trademark licensor or an undertaking-member of a group cannot oppose parallel imports of trademarked goods on the ground that the quality (or other characteristics) of the goods is not geared to the particularities of the market of the importing Member State.[313] This is because the licensor or the group may exercise control over the quality (or other characteristics) of the goods manufactured by the licensee or the

[312] See Case C-58/80, *Dansk Supermarked A/S v. A/S Imerco*, [1981] ECR 181, paras 16 and 17; Case C-22/71, *Béguelin Import Co. v. S.A.G.L. Import Export*, [1971] ECR 949, para. 15.

[313] Case C-9/93, n. 27 above, para. 38.

undertakings belonging to the group, respectively.[314] The essential function of the trademark, as defined in the *Hoffmann-La Roche v. Centrafarm* decision,[315] is not put in jeopardy when imported trademarked goods differ in terms of quality (or other characteristics) from the similar goods already in circulation in the Member State of importation under the same trademark if the use of the trademark in the importing and exporting Member States is under a single control.[316] Moreover, as analysed in Chap. 7, the ECJ recognises the protection of the guarantee function of the trademark under Article 36 of the TFEU, although not independently but within the context of the origin function of the trademark. In particular, in the ECJ's view, the protection of the guarantee function of the trademark means that the consumer or ultimate user can be certain that the quality or other characteristics of a trademarked product that is sold to him have not changed, without the authorisation of the proprietor of the trademark, after the product has been put on the market for the first time.[317]

Based on the foregoing case law, therefore, there is no legitimate reason, within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009, when the quality (or other characteristics) of trademarked goods imported in parallel differ from the quality (or other characteristics) of the goods distributed in the Member State of importation with the authorisation of the trademark proprietor. However, a trademark proprietor may succeed in excluding the marketing of such parallel imported goods under unfair competition law, especially where the independent trader of the goods does not inform the consumer or ultimate user about the differences between the goods in question and the similar goods already in circulation in the importing Member State under the same trademark.[318] Such an approach is in line with the general assumption that trademark law protects only indirectly the interests of consumers and ultimate users.[319]

[314] Case C-9/93, n. 27 above, para. 37.

[315] Case C-102/77, n. 31 above, para. 7.

[316] Case C-9/93, n. 27 above, para. 39.

[317] See *supra* section "Assessing the Legality of Parallel Imports in the Light of the Guarantee Function of the Trademark".

[318] See Schuster (1998), pp. 180–181. The obligation of the parallel importer to make the differences of the products he markets from the identical or similar products already in circulation in the market of the importing country known to consumers/end users has been acknowledged directly by the German courts and indirectly by the ECJ. Nevertheless, failure to fulfil that obligation does not produce effects under trademark law. See BGH *GRUR* 1973, 463, 471—*Cinzano*; Case C-373/90, *Criminal proceedings against X*, [1992] ECR I-131, para. 16. It is worth mentioning that British case law has also recognised that the parallel importation of products whose quality level differs from that of the identical or similar products already in circulation in the domestic market may be prevented if the parallel imported products are not distinguishable by the consumer or if the difference in the quality level between the parallel imported products and the identical or similar products already in circulation in the domestic market is not irrelevant or *de minimis*. See the excerpt from the *Revlon/Cripps & Lee* decision [(1980) FSR 85 (C.A.)] cited in Wadlow (2004), p. 463, para. 7.58.

[319] Cf. Opinion of Advocate General Gulmann in Case C-9/93, n. 27 above, points 100–101. On that assumption, see in detail Marinos (2007).

10.5.2.3 Prohibition of Parallel Imports of Trademarked Goods by Invoking Other Intellectual Property Rights

The fact that the proprietor of a trademark is not able to prevent a parallel import of goods bearing the trademark under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 does not mean, at least in principle, that he is not able to prevent the import by invoking an intellectual property right other than the trademark right, provided, of course, that the goods imported in parallel are covered by both a trademark right and another intellectual property right. Indeed, every intellectual property right provides an independent legal basis for prohibiting a parallel import.[320] Nonetheless, a question arises as to whether, in the light of EU law, there is a substantial likelihood of prohibiting parallel imports of trademarked goods that cannot be prohibited under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 by invoking intellectual property rights other than the trademark right.

The Court answered the above question indirectly in *Christian Dior SA v. Evora*. More specifically, one of the issues examined in that decision was whether it is possible to rely on copyright for the purposes of prohibiting the reproduction of protected works in an independent reseller's advertising. To resolve that issue, the ECJ made a reference to its case law on the legality of parallel imports of copyrighted items.[321] In the Court's view, it is clear from that case law that the commercial exploitation of copyright constitutes a form of control on marketing exercisable by the copyright owner and that, from this point of view, such exploitation raises the same issues as that of any other industrial or commercial property.[322] On the basis of this observation, the Court treated uniformly trademark rights and copyright in the light of the free movement of goods provisions of the EEC Treaty (now TFEU). In particular, it stated that "Having regard to that case-law – there being no need to consider the question whether copyright and trade mark rights may be relied on simultaneously in respect of the same product –, it is sufficient to hold that, in circumstances such as those in point in the main proceedings, the protection conferred by copyright as regards the reproduction of protected works in a reseller's advertising may not, in any event, be broader than that which is conferred on a trade mark owner in the same circumstances".[323]

In the light of these assessments, it is reasonable to argue, in this author's opinion, that where it is not possible to exclude the parallel import of trademarked goods by invoking the right flowing from the trademark borne by the goods, the possibility of the trademark proprietor preventing the parallel import by invoking another intellectual property right is rather theoretical.[324] In spite of the fact that the

[320] So also Stamatoudi (1999), p. 103.

[321] Case C-337/95, n. 257 above, paras 55–57.

[322] Case C-337/95, n. 257 above, para. 57.

[323] Case C-337/95, n. 257 above, para. 58.

[324] So also Stamatoudi (1999), pp. 104–105.

Court, just like Advocate General Jacobs in his Opinion in *Christian Dior SA v. Evora*, recognised that the functions of copyright differ from those of trademarks,[325] nevertheless the determination of whether it is possible to exercise the said rights with a view to excluding parallel trade under EU law seems to be based on another factor. That factor is to be found in the meaning of the specific subject matter of intellectual property rights other than the trademark right. More specifically, it is clear from the case law of the ECJ pertaining to the legality of the exercise of intellectual property rights other than trademark rights in the light of Articles 30 and 36 of the EEC Treaty (now Articles 34 and 36 of the TFEU) that the decisive criterion for products protected by those rights to be subject to Article 30 of the EEC Treaty (now Article 34 of the TFEU) is to be found in whether the holders of those rights had the opportunity to receive a reward for their creative or inventive effort by controlling the first marketing of the products.[326] If the holders of those rights had the opportunity to receive a reward for their creative or inventive effort with respect to goods covered by their rights by controlling the first marketing of the goods, the Court does not allow them to partition the markets between Member States by invoking their rights. Based on these considerations, once the conditions for the exhaustion of each intellectual property right that may be relied on simultaneously in respect of the same product have been met,[327] it seems highly unlikely that a parallel import that cannot be prevented under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 can be prevented by invoking intellectual property rights other than the trademark right,[328] although such a possibility was not excluded by the ECJ.[329] This is because such a possibility would mean that the proprietor of the trademark and the other intellectual property right by which the trademarked goods imported in parallel are covered would receive a double reward in relation to the same goods. As it is inferred from the ECJ's case law, the ECJ does not accept the idea of the holder of an intellectual

[325] Case C-337/95, n. 257 above, para. 56; Opinion of Advocate General Jacobs in Case C-337/95, n. 257 above, point 59.

[326] With regard to patent rights, see, in particular, Case C-187/80, *Merck & Co. Inc. v. Stephar BV and Petrus Stephanus Exler*, [1981] ECR 2063, para. 10; Joined Cases C-267/95 and C-268/95, *Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v. Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v. Europharm of Worthing Ltd*, [1996] ECR I-6285, para. 31, while with regard to copyright, see, in particular, Joined Cases C-55/80 and C-57/80, *Musik-Vertrieb membran GmbH and K-tel International v. GEMA – Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte*, [1981] ECR 147, para. 25.

[327] It is stressed that those requirements may vary. Therefore, for instance, for the exclusive right flowing from a trademark to be exhausted, it suffices that a product bearing the trademark is put on the market within the meaning of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009, while the exhaustion of the right to distribute items embodying copyright requires the transfer of ownership of the items pursuant to Article 4 of Directive 2001/29/EC.

[328] So also Stamatoudi (1999), p. 105.

[329] Case C-337/95, n. 257 above, para. 58.

property right being rewarded more than once by controlling not only the first but any further marketing of products embodying his right in the EU's internal market.[330]

10.5.3 The Burden of Proof

As in relation to the provisions of Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009, a question arises as to how the burden of proof is to be allocated in cases involving a legitimate reason for excluding the applicability of the rule of EU-wide exhaustion of the national or the Community trademark right. As for Article 7 (1) of Directive 2008/95/EC and Article 13 (1) of Regulation (EC) 207/2009, the ECJ recognised the applicability of the principle of procedural autonomy of the Member States, provided that it does not result in rendering Articles 28 and 30 of the EEC Treaty (now Articles 34 and 36 of the TFEU) ineffective. The situation is different in cases concerning the applicability of Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009.

More specifically, in the *Glaxo Group v. Dowelhurst II* decision, the ECJ held that it is for the parallel importer to prove the existence of the conditions set out in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments.[331] This position was based on two factors: firstly, if it were a matter for the national law of the Member States to determine the question of the onus of proving the existence of those conditions, the objective of "the same protection under the legal systems of all the Member States" set out in the ninth recital in the Preamble to Directive 89/104/EC (now in the tenth recital in the Preamble to Directive 2008/95/EC), and described as "fundamental", would not be attained[332] and, secondly, the repackaging of a trademarked product without the authorisation of the trademark proprietor in itself is prejudicial to the specific subject matter of the trademark right without there being any need to assess in each individual case its actual effects.[333]

The ECJ's approach described above is in conformity with the generally accepted procedural principle according to which the party claiming that the conditions for the rebuttal of a presumption are satisfied bears the burden of proving those conditions. In particular, based on the finding that, according to the settled case law of the Court, the repackaging of a trademarked product without the consent of the trademark proprietor in itself is prejudicial to the specific subject matter of the trademark right, it is reasonable to argue, in the light of the general procedural

[330] Case C-337/95, n. 257 above, para. 58.

[331] Case C-348/04, n. 48 above, para. 52.

[332] Case C-348/04, n. 48 above, para. 51.

[333] Case C-348/04, n. 48 above, para. 49.

principles of the Member States, that the parallel importers bear the burden of proving the existence of the conditions laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments.

However, in applying the foregoing principle, the need for ensuring the effet utile of Articles 34 and 36 of the TFEU must be taken into account. The effet utile of Articles 34 and 36 of the TFEU would be jeopardised if the allocation of the burden of proof described above would excessively restrict the freedom of parallel trade between Member States. Thus, in the light of these considerations, the Court stated that "as regards the condition that it must be shown that the repackaging cannot affect the original condition of the product inside the packaging, it is sufficient that the parallel importer furnishes evidence that leads to the reasonable presumption that that condition has been fulfilled.[334] This applies a fortiori also to the condition that the presentation of the repackaged product must not be such as to be liable to damage the reputation of the trade mark and of its proprietor. Where the importer furnishes such initial evidence that the latter condition has been fulfilled, it will then be for the proprietor of the trade mark, who is best placed to assess whether the repackaging is liable to damage his reputation and that of the trade mark, to prove that they have been damaged".[335]

The ECJ's position on the allocation of the burden of proof in cases concerning the legality of parallel imports of trademarked products that have been repackaged without the consent of the trademark proprietor described above applies, of course, to any case of repackaging trademarked products (replacement of the original external or internal packaging of the products, alteration of the contents or the appearance of the original external packaging of the products, affixing of a new label to the original external or internal packaging of the products, addition of new user instructions or information in the language of the Member State of importation to the packaging of the products, and replacement of the accompanying product included in the packaging of the products). Furthermore, with regard to the legality of parallel imports of products whose original trademark has been replaced by the trademark used for the authorised marketing of the same products in the Member State of importation without the authorisation of the trademark proprietor, the parallel importer is the one who bears the burden of proving the first of the conditions laid down in the *MPA Pharma, Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments, i.e. that the exercise of the trademark right with a view to preventing the parallel import would contribute to the artificial partitioning of the markets between Member States. Finally, if the parallel importer or independent reseller is the one who bears the burden of proving that the repackaging of a trademarked good cannot affect the original condition of the product inside the packaging, he is also *a fortiori* the one who bears the burden of proving that the repair or reprocessing works carried out on the trademarked

[334] Case C-348/04, n. 48 above, para. 54.

[335] Case C-348/04, n. 48 above, para. 54.

good he markets did not alter the identity of the good and are not liable to damage the reputation of the trademark borne by the good.

On the contrary, in this author's view, the allocation of the burden of proof should be different in cases where a trademark proprietor seeks to prohibit the parallel import of goods bearing his trademark under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009 on the ground that the type of advertising chosen by the parallel importer or the independent reseller or the conditions under which the goods are marketed entail damage or a risk of damage to the reputation of the trademark or constitute an unfair exploitation of that reputation. More specifically, when there is no presumption that the parallel import of a trademarked product does not entail a risk of the specific subject matter of the trademark right being impaired, i.e. when the product has not been repackaged or its original trademark has not been replaced without the authorisation of the trademark proprietor, normally there is no legitimate reason within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009. In fact, it is clear from the ECJ's case law that the type of advertising chosen by an independent trader or the circumstances under which parallel imported goods are marketed normally does not damage the reputation of the trademark borne by such goods or does not create a risk of that reputation being damaged or does not constitute an unfair exploitation of that reputation. Only in specific cases can it be accepted by the national court that the type of advertising chosen by an independent trader or the circumstances under which parallel imported goods are marketed provide a legitimate reason within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.[336] Based on these considerations, it seems more appropriate to accept that the trademark proprietor is the one who bears the burden of proving that the type of advertising chosen by an independent trader or the circumstances under which parallel imported goods are marketed entail damage to the reputation of the trademark borne by such goods or a risk of that reputation being damaged or an unfair exploitation of that reputation. This approach was confirmed in a recent decision of the Court, where the latter observed that the trademark proprietor is the one who bears the burden of proving that the removal of the packaging of a trademarked product imported in parallel has damaged the image of the product and, hence, the reputation of the trademark.[337]

[336] Case C-337/95, n. 257 above, para. 48; Case C-63/97, n. 264 above, para. 55; Case C-59/08, n. 274 above, para. 57; Case C-558/08, n. 269 above, para. 93.

[337] Case C-324/09, n. 281 above, para. 83. Advocate General Jääskinen disagrees without providing any specific statement of reasons in his Opinion in the same case (point 80).

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Chapter 11
Conclusion to Part III

1. Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 incorporate the doctrine of "Union-wide" exhaustion of the exclusive right flowing from the trademark. In accordance with the above-mentioned provisions, as well as the provision of Article 2 (1) of Protocol 28 to the EEA Agreement, for the exclusive right flowing from a national or Community trademark to be exhausted with regard to a good bearing the trademark, the good must be put on the market in a Member State of the European Economic Area by the trademark proprietor or with his consent. In the Court's view, for the exclusive right flowing from a Community trademark to be exhausted with regard to a good bearing the trademark, the good must be put on the market in a Member State of the European Union by the trademark proprietor or with his consent.
2. The concept of "good" within the meaning of Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 includes, in the light of the ECJ's case law, any product that "can be valued in money and which are capable of forming the subject of commercial transactions". On the contrary, an object is not considered to be a good if it is supplied free of charge in order to promote the sale of other items bearing a specific trademark, since that object is not distributed in any way with the aim of it penetrating the market.
3. The concept of "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 must be interpreted as including mainly the sale of trademarked goods, even if the relevant contract is concluded under reservation of title. On the contrary, that concept does not cover (a) the transfer of ownership of a trademarked good by way of security, when the assignor remains in possession of the good in question; (b) preparatory actions for selling a trademarked good, such as the importation and the offer for sale of the good in question in a Member State of the European Economic Area; (c) the sale of a trademarked good to an undertaking that has its own legal personality but belongs to the same group as the trademark proprietor; (d) only the internal transit of a trademarked good,

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even if the good is intended to be put on the market in a third country (in relation to the EU or the EEA); (e) only the offer for sale or the sale of a trademarked good after the good in question has entered physically but not legally the territory of the EU (or the EEA); (f) the distribution, free of charge, of trademarked items intended to promote the sale of other goods, because such items are not distributed in any way with the aim of them penetrating the market.

4. For the provisions of Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 to apply, only the place where a trademarked good has been put on the market is relevant. On the contrary, the place where a trademarked good has been produced is indifferent.
5. The exhaustion of trademark rights rule does not apply to the entire production line of a trademarked product but only to individual trademarked items of a product that have been put on the market by the trademark proprietor or with his consent.
6. Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 apply only to goods that have been put on the market in the European Economic Area by the proprietors of the trademarks borne by the goods or with their consent. In the ECJ's view, Article 13 of Regulation (EC) 207/2009 apply only to goods that have been put on the market in the European Union by the proprietors of the trademarks borne by the goods or with their consent. In the light of the ECJ's case law, the Member States of the European Union are prohibited from adopting a doctrine of international exhaustion of the exclusive right flowing from the national trademark, through legislation or through their courts' case law, since such a doctrine is incompatible with Article 7 (1) of Directive 2008/95/EC. Such a prohibition is necessary in order to safeguard the effet utile of Articles 34 and 36 of the TFEU and also of the provisions of the TFEU related to the EU's economic policies. A consideration of Article 7 (1) of Directive 2008/95/EC as a maximum standard may be based on Article 207 of the TFEU and is, moreover, in conformity with GATT/WTO law.
7. A trademark proprietor puts goods bearing the trademark on the market within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 even when he sells the goods to an undertaking established in the EEA that has undertaken a contractual obligation to resell the goods outside the EEA.
8. The consent of a trademark proprietor for putting goods bearing the trademark on the market in the EEA (or in the EU, in the Court's view, as far as goods bearing a Community trademark are concerned) may be either explicit or implicit, but in any case it must be expressed positively. The facts and circumstances taken into consideration in determining whether there is an implied consent must unequivocally demonstrate that the trade mark proprietor has renounced his right to oppose the importation of the goods in question in Member States of the EU. Implied consent cannot be inferred from the mere silence of the trade mark proprietor or from facts and circumstances that do not imply the proprietor's renunciation of his exclusive right. Therefore, implied

consent cannot be inferred (a) from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of goods placed on the market outside the EEA his opposition to marketing within the EEA; (b) from the fact that trademarked goods carry no warning that it is prohibited to place them on the market within the EEA; (c) from the fact that the trademark proprietor has transferred the ownership of goods bearing the trademark without imposing any contractual reservations or from the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA; or (d) from the tolerance shown by the trademark proprietor against an illegal putting on the market of goods bearing the trademark within the EEA.

9. It must be accepted, as an irrefutable presumption, that a trademarked good has been put on the market with the consent of the trademark proprietor, in particular, where the good has been marketed by an undertaking belonging to the same group as the trademark proprietor or by a trademark licensee or by an authorised (exclusive or selective) distributor. The consent provided for in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 does not exist and the exhaustion of trademark rights is precluded if a trademark licensee manufactured or put on the market trademarked goods in contravention of a contractual provision mentioned in Articles 8 (2) of Directive 2008/95/EC and 22 (2) of Regulation (EC) 207/2009. The consent of the trademark proprietor-parent undertaking of a group or of the trademark proprietor-manufacturer applies also as consent of the trademark proprietor-subsidiary undertaking or of the trademark proprietor-exclusive distributor, respectively.
10. By virtue of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, a trademark proprietor cannot prevent the trademark borne by a good that has been put on the market in the EEA (or in the EU, in the Court's view, if the good bears a Community trademark) by the trademark proprietor or with his consent from being used in marketing or in advertising the good and also from being reaffixed to the good under certain circumstances.
11. The rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 can be extended to trademarked goods put on the market in a third country (outside the European Union) only when an International Agreement between the EU and the third country has been concluded in that sphere. The rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 have been already extended to goods put on the market in the EFTA/EEA Member States by virtue of the EEA Agreement, as it has on several occasions been stated.
12. In case of a conflict between the provisions of Articles 101 or 102 of the TFEU and Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009, Articles 101 or 102 of the TFEU must take precedence.
13. The rule of evidence that exhaustion of the trademark right constitutes a plea in defence for a third party against whom the trademark proprietor brings an

action so that the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it is consistent with EU law and, in particular, with Articles 5 and 7 of Directive 89/104/EEC (now Articles 5 and 7 of Directive 2008/95/EC). However, the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU) may mean that that rule of evidence needs to be qualified. This must be so where the rule in question would allow the proprietor of the trademark to partition national markets and thus assist the maintenance of price differences that may exist between Member States.

14. "Legitimate reasons" for excluding the applicability of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 within the meaning of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 shall exist (a) where the condition of the parallel imported goods is changed or impaired after they have been put on the market for the first time and (b) where the use of the trademark affixed to the parallel imported goods by the independent trader (parallel importer or independent reseller) entails damage or a risk of damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark.
15. According to the Court, both a change or impairment in the original condition of the product inside the packaging of a trademarked good and a change or impairment in the original condition of the packaging of a trademarked good fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.
16. Changes in the original condition of the packaging of a trademarked product that fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 include the following practices: (1) replacing the (original) inner or outer packaging of the product and reaffixing the trademark under which the product has been marketed to the new packaging of it; (2) altering the contents or the appearance of the (original) external packaging of the product, leaving intact the trademark affixed to that packaging; (3) affixing a new label to the (original) inner or outer packaging of the product, leaving intact the trademark affixed to that packaging; (4) adding new user instructions or information in the language of the Member State of importation to the packaging of the product; (5) replacing the accompanying product included in the packaging of the product; (6) removing or eliminating the identification numbers placed on the product; (7) adding the trademark of the parallel importer or independent reseller of the product to its packaging; (8) removing the trademark under which the product has been marketed; and (9) replacing the trademark under which the product has been marketed with the trademark used for the authorised distribution of the same product in the Member State of importation.
17. The above-mentioned (under 16) changes (1)–(5) do not allow for the prohibition of the parallel import of the product, provided that the conditions laid down

in the judgements in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, namely the following conditions, are cumulatively satisfied: (a) it is established that reliance on the trademark right in order to prohibit the parallel import would contribute to the artificial partitioning of the markets between Member States; (b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging; (c) the new packaging clearly states who repackaged the product and the name of the manufacturer; similarly, the origin of an extra article from a source other than the trademark owner must be indicated in such a way as to dispel any impression that the trademark owner is responsible for it; (d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner; (e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product. Those conditions apply in principle to any trademarked product. The above-mentioned (under 16) changes (6)–(8) do not allow for the prohibition of the parallel import of the product, provided that they do not entail damage or a risk of damage to the reputation of the trademark borne by the product and of the proprietor of that trademark or an unfair exploitation of that reputation. Finally, the above-mentioned (under 16) change (9) does not allow for the prohibition of the parallel import of the product if it is established that reliance on the trademark right in order to prohibit the parallel import would contribute to the artificial partitioning of the markets between Member States.

18. Changes in the original condition of the product inside the packaging of a trademarked good include repair or reprocessing works on the product unless, in the framework of such works, (1) defects or imperfections in non-essential parts of the product (i.e., parts of the product not directly linked to its functioning or intended purpose) have been eliminated; (2) non-essential parts of the product have been replaced; and (3) the colour or shade of the product has changed, and, at the moment of the parallel importation, the new colour or shade belongs to the palette of colours or shades used by the trademark proprietor, and, moreover, the change of the colour or shade did not involve an alteration of the original quality of the product or a risk of the original quality of the product being altered.
19. A damage to the reputation of the trademark borne by goods imported in parallel or a risk of such damage or an unfair exploitation of that reputation may arise either in the framework of the independent trader's advertising or in the framework of the circumstances under which the goods are marketed. The proprietor of a trademark may, under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, oppose the use of his trademark by an independent trader for advertising purposes only if such a use *seriously* damages or is liable to *seriously* damage the reputation of the trademark (emphasis added).

20. The disruption to a selective distribution network by an independent trader is not a “legitimate reason” within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.
21. The parallel importer or the independent reseller is the one who bears the burden of proving the conditions set out in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova* judgments. On the contrary, the trademark proprietor is the one who bears the burden of proving that the type of advertising chosen by an independent trader or the circumstances under which parallel imported goods are marketed entail damage to the reputation of the trademark borne by such goods or a risk of that reputation being damaged or an unfair exploitation of that reputation.

Part IV
Exhaustion of Trademark Rights and Legality of Parallel Imports in National Laws Outside the European Economic Area

Chapter 12
Introduction to Part IV

As it becomes clear from the travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94, the non-adoption of the principle of international exhaustion of trademark rights by the aforesaid legislative acts, and now Directive 2008/95/EC and Regulation (EC) 207/2009, was justified on the ground that the major trading partners of the European Community (now European Union) also did not recognise that principle.[1] In particular, in the context of the above-mentioned travaux préparatoires, the Commission of the European Communities (currently European Commission) justified the non-establishment of the principle of international exhaustion of the national trademark and the Community trademark on the ground that the United States, Japan, and the countries of Scandinavia, i.e. the major trading partners of the Community, also did not recognise a regime of international exhaustion of trademark rights.

Today, almost 20 years after the adoption of Directive 89/104/EEC and Regulation (EC) 40/94, new countries have been included in the major trading partners of the European Union (EU). In particular, according to the most recent statistics (2011), the ten most important trading partners of the EU are, in descending order, the USA, China, Russia, Switzerland, Norway, Turkey, Japan, India, Brazil, and South Korea.[2] Part IV presents the regimes of exhaustion of trademark rights currently adopted by the aforementioned countries. This presentation is motivated by the assessment that the exhaustion of trademark rights regimes adopted by the major trading partners of the EU will be, based on the travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94, the decisive factor to be taken into account by the relevant EU institutions should an issue of reviewing the EU exhaustion of trademark rights rules arise.

[1] See *supra* Sect. 9.4.5.4.

[2] Source: Eurostat.

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Chapter 13
Exhaustion of Trademark Rights and Legality of Parallel Imports in the Ten Most Important Trading Partners of the EU

13.1 Exhaustion of Trademark Rights and Legality of Parallel Imports in the USA

The US has always been the most important trading partner of the European Community, now the European Union. Therefore, determining the regime of exhaustion of trademark rights adopted by that country is of particular interest as a factor shaping the European Union policy on the question of the legal treatment of parallel imports.

13.1.1 The "First Sale Doctrine"

In the US law on trademarks, the "first sale doctrine" has been recognised as a rule equivalent to the principle of exhaustion of rights since the beginning of the twentieth century. According to the first sale doctrine, which, like the rule of exhaustion of rights, has been recognised also in relation to the patent right and the right to distribute items protected by copyright, the proprietor of a trademark is not able to oppose the commercialisation of a good bearing the trademark once the good has been put on the market in the US by the trademark proprietor or with his consent.[1] Hence, the first sale doctrine entails the exhaustion of the rights conferred by the trademark with respect to trademarked goods sold in the US market by the holder of the trademark or with his consent.[2]

However, the "first sale" doctrine does not answer the question of whether the owner of a trademark is able to prohibit the use of the trademark in regard to a trademarked product sold by him or with his consent outside the US market.

[1] Kremen (1997), p. 162. For the "first sale doctrine" in general, see Bodewig (2000).

[2] Tawfik (1994), p. 24.

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Whether US trademark rights are, that is to say, subject to a national or international exhaustion regime is not answered by the first sale doctrine. Thus, the issue of the legality of parallel imports of trademarked products not put on the US market by the trademark proprietor or with his consent was dealt with initially under common law, whereas today it is dealt with under the Tariff Act of 1930, the Lanham Act of 1946, and the US Customs Regulations.

13.1.2 Exhaustion of Trademark Rights and Legality of Parallel Imports Under US Common Law

In the US, the issue of the legality of parallel imports of trademarked goods has been associated since the beginning of twentieth century with the protection given to the economic value of the trademark. In particular, in the US courts' case law, the assessment of the legality of parallel imports of trademarked goods was originally based solely upon the trademark's function of guaranteeing the origin of a product and distinguishing a product from products of other undertakings (origin function of the trademark). Later, however, in assessing that legality, the protection of the goodwill that a trademark symbolises in the US market took on great importance. This was rather prompted by a change in perception of the trademark right from a right whose protection primarily served the interests of consumers and should, therefore, be governed by the principle of universality to a right whose protection served, primarily, the interests of the trademark proprietor and, therefore, should be governed by the principle of territoriality.[3] This will be discussed in specific details in the following sections.

13.1.2.1 Trademark's Origin Function and Legality of Parallel Imports

At the beginning of twentieth century, US case law acknowledged the principle of universality of trademark rights. According to the American conception of that principle, trademark rights were protected for the consumer's sake, not the trademark owner's sake. In particular, protection of trademarks was intended to prevent potential consumer confusion as to the origin of goods sold in the US market. The foregoing conception was bound to make a finding of a trademark right's infringement conditional solely on the existence of an adverse effect on the origin function of the trademark or a risk of an adverse effect on the origin function of the trademark.[4]

[3] See Andrade (1993), pp. 425–426.

[4] Andrade (1993), p. 425; Hiebert (1990), p. 483. Typical for the recognition of the origin function as the only function of the trademark protected by the law are the judgments of the Supreme Court

Indeed, in the late nineteenth century, in *Apollinaris Co., Ltd. v. Scherer*,[5] the District Court of New York justified the legality of the parallel importation in question with the argument that it did not entail a risk for the origin function of the trademark affixed to the parallel imported goods to be adversely affected. In particular, in that case, the parallel imported goods were acquired abroad by an independent trader and the trademark proprietor-exclusive distributor of the manufacturer of those goods sought to prohibit their resale in the US market. The District Court of New York refused to issue a prohibition of the parallel importation in question on the ground that the latter did not involve any risk of confusing consumers as to the origin of the goods imported in parallel.[6] According to the court, once a trademarked good had legally been put on the market, the trademark owner could not oppose the resale of the good by invoking his right.[7] Given that the above-mentioned decision did not define the area within which a trademarked good must have been put on the market in order for the trademark proprietor not to be able to oppose the resale of the good, the District Court of New York recognised, in *Apollinaris Co., Ltd. v. Scherer,* the doctrine of international exhaustion of trademark rights.

The *Apollinaris Co., Ltd. v. Scherer* decision was confirmed in the beginning of the twentieth century by the Court of Appeal of New York in *Fred Gretsch Mfg. Co. v. Schoenig*.[8] In particular, in the *Fred Gretsch Mfg. Co. v. Schoenig* decision, the Court of Appeal of New York rejected that the contested parallel import amounted to infringement of the trademark of the imported goods on the ground that the goods in question were genuine and, consequently, not confusing for consumers as to their origin. Hence, it was not possible for the goods in question to be subject to the then Section 27 of the 1905 Trademark Act (currently Section 42 of the 1946 Lanham Act), which prohibited the importation of counterfeit goods.[9]

13.1.2.2 Trademark's Goodwill and Legality of Parallel Imports

In the 1920s, there was a trend in the US courts' case law towards the extension of the protection of the trademark right to its economic value. That trend reflected, probably, a change in perception of the trademark right from a right whose protection primarily served the interests of consumers to a right whose protection served, primarily, the interests of the trademark proprietor. Indeed, the proprietor of a trademark is interested not only in the essential function of the trademark as an

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of the USA in *Manufacturing Co. v. Trainer*, 101 U.S. 51, 53 (1879) and *Menendez v. Holt*, 128 U.S. 514, 529 (1889).

[5] 27 F. 18 (2nd Cir. 1886).

[6] 27 F. 18, 20, 21 (2nd Cir. 1886).

[7] 27 F. 18, 21 (2nd Cir. 1886).

[8] 238 F. 780 (2nd Cir. 1916).

[9] 238 F. 780, 782 (2nd Cir. 1916).

indication of origin being developed smoothly but also in the trademark's economic value being maintained.[10] That change, which also signalled the principle of universality being side-lined by the principle of territoriality of trademark rights, had an impact, *inter alia,* on the legal treatment of parallel imports by the US courts.

In particular, the judgment that marked the development of a new case law by the US courts on the question of the legality of parallel imports of trademarked goods was issued by the Supreme Court of the United States in the *American Bourjois & Co. v. Katzel* case.[11] As in *Apollinaris Co., Ltd. v. Scherer*, in that case, the parallel imported goods had been acquired abroad by an independent trader and the trademark proprietor-exclusive distributor of the manufacturer of the goods sought to prohibit their resale in the US market. As regards the economic value of the trademark borne by the goods in question, substantial investments had been made in the US by both the manufacturer of the goods and the trademark proprietor-exclusive distributor. Thus, the trademark proprietor's claim for judicial remedy was based on the assertions that, firstly, a product identical to the parallel imported one had been sold in the US market for many years; secondly, that large sums had been invested in the organisation of a network for distribution of the product in question; and, thirdly, that large sums had been spent on advertising the trademark of the product in question. On the other hand, the parallel importer invoked the *Apollinaris Co., Ltd. v. Scherer* and *Fred Gretsch Mfg. Co. v. Schoenig* decisions, namely they claimed that the intra-brand competition developed in the context of a parallel importation is lawful since the goods imported in parallel are goods that are genuine and that have been put on the market through authorised distribution channels.

The Court of Appeal of New York, based on the case law consisted of the *Apollinaris Co., Ltd. v. Scherer* and *Fred Gretsch Mfg. Co. v. Schoenig* decisions, ruled in favour of the parallel importer and denied that a trademark's infringement had taken place.[12] This ruling was met with scepticism by US undertakings, which during World War I purchased assets confiscated from German undertakings, including trademarks of the latter. That scepticism was due precisely to the reasonable unwillingness of US undertakings to be exposed to an intra-brand competition between them and independent traders who imported trademarked goods from Europe, which could jeopardise the amortisation of the investments made by those undertakings.[13]

The foregoing ruling was set aside to the benefit of US undertakings by the US Supreme Court. The latter accepted the legitimacy of the prohibition of the contested parallel importation on the ground that it caused damage to the particular

[10] Andrade (1993), pp. 425–426. For the need to protect the economic value of American trademarks, see typically *Hanover Star Milling Co. v. Metcalf,* 240 US 403, 413 (1916); Derenberg (1961).

[11] 260 U.S. 689 (1923).

[12] 275 F. 539 (2nd Cir. 1921).

[13] Harriehausen (2004), p. 148.

economic value represented by the trademark affixed to the parallel imported goods in the US market. The finding that the contested parallel import caused damage to the economic value and, in particular, to the reputation of the trademark by reference to which the parallel importation in question was sought to be prohibited was based further on the consideration that consumers would mistakenly believe that the parallel imported goods had been manufactured by the trademark proprietor in the US, although this was far from being true.[14]

The ruling in *American Bourjois & Co. v. Katzel* was supported by some authors.[15] Moreover, as will be shown later, the preservation of the particular economic value represented by a trademark in the US market has maintained, in the light of US positive trademark law, its relevance as a decisive factor in the assessment of the legality of parallel imports by the US courts.

13.1.3 Exhaustion of Trademark Rights and Legality of Parallel Imports Under US Positive Law

In the US legal order, trademark law was originally developed under common law as part of the law of unfair competition.[16] Today, legal protection of trademarks is guaranteed both at federal level and at state level. The most important piece of legislation of US trademark law at federal level is the Lanham Act of 1946. The scope of that piece of legislation covers only trademarks used in business transactions between US States, whereas trademarks used within States fall under the trademark law of each state. In the event of a conflict between Federal and State laws, Federal law always prevails.[17] The Constitution of the United States explicitly confers on the Federal Government legislative powers to adopt legal instruments on patent rights and copyright but not on trademark rights. Thus, the Federal Government's competence to issue legal instruments on trademark rights is based on the general competence clause provided for in Article I, Sec 8, Cl. 3 of the US Constitution (known as "Commerce Clause"), which gives the Federation competence to regulate trade between the US and other countries.[18]

[14] 260 U.S. 689, 690 (1923). It is worth noting that the District Court of New York accepted—on the basis of the same reasoning—the prohibition of the contested parallel import as legal [*American Bourjois & Co. v. Katzel*, 274 F. 857 (D.C. New York 1920)].

[15] See indicatively Hiebert (1983).

[16] Cf. Funk (1995), p. 15.

[17] Funk (1995), p. 20.

[18] In accordance with article I, Sec 8, Cl. 3 of the US Constitution: "The Congress shall have Power . . . to regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes. . . ."

US federal trademark law presents a significant number of gaps, which can be covered through common law.[19] In any case, even if a certain issue is regulated in the legislation, the common law with regard to that issue remains valid and should, therefore, be taken into account.[20] However, this does not apply to the issue of the legality of parallel imports, which is now considered by the US courts only under US positive law. A more specific discussion is provided below.

13.1.3.1 Sec. 526 (a) of the Tariff Act of 1930[21]

Section 526 (a) of the Tariff Act of 1930 [19 USC § 1526 (a) (1982)] provides the strongest legal basis for prohibitions on parallel imports of trademarked goods, and this is why that provision is described in American legal literature as "genuine goods statute'.[22] That provision reflects the protection of the economic value of the trademark in assessing the legality of a parallel importation,[23] which has been already acknowledged under common law. In particular, according to Sec. 526 (a) of the Tariff Act of 1930, no goods bearing a trademark registered in the USA may be imported into the USA unless there is a written consent of the trademark proprietor at the time of the importation.

It is to be noted that Sec. 526 (a) of the Tariff Act of 1930 covers only trademarks belonging to individuals, undertakings, or associations with US citizenship.[24] The US legislator intended, that is to say, through Sec. 526 (a) of the Tariff Act of 1930, to provide the power to eliminate intra-brand competition developed in the context of parallel trade only to US trademark proprietors. US trademarks acquired by foreign citizens fall outside the scope of the provision in question.[25] It is also clear that the provision in question covers only goods manufactured outside the US. The legal effect of Sec. 526 (a) of the Tariff Act of 1930 is that the rights conferred by trademarks borne by genuine goods marketed outside the US are not considered to

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[19] Funk (1995), p. 17.

[20] Funk (1995), pp. 19–20.

[21] In accordance with Sec. 526 (a) of the Tariff Act of 1930:

> Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered . . . by a person domiciled in the United States . . . unless written consent of the owner of such trade-mark is produced at the time of making entry.

[22] See Kuhn (1980), p. 388 and n. 4 thereto.

[23] H.R. Rep. No. 1223, 67th Congress, 2nd Session 158 (1922): "*There is no dispute that... Katzel was the "major stimulus" for the enactment of Sec. 526*", K Mart Corp. v. Cartier, Inc. 486 U.S. 281, 302 (1988).

[24] See Kuhn (1980), p. 398.

[25] Takamatsu (1982), p. 439.

have been exhausted, provided that the proprietors of those marks in the US have US citizenship.[26]

The validity of Sec. 526 (a) of the Tariff Act of 1930 was challenged in US academic circles. In particular, according to some academic authors, the provision under consideration amounts to a circumvention of US antitrust law by allowing US trademark holders to control distribution channels for genuine goods and to prevent, in this way, the development of intra-brand competition in the US market.[27] According to another view, however, the provision under consideration is in harmony with the purposes of US trademark law, which include also the protection of the particular economic value that a trademark symbolises in the US.[28]

In the 1950s, the validity of Sec. 526 (a) of the Tariff Act of 1930 was contested before the US courts. In particular, the US Department of Justice brought an action against a US firm-trademark proprietor before the District Court of New York to obtain a declaration that the prohibition on a parallel importation on the basis of the above-mentioned provision constituted an infringement of the anti-monopoly provision of Sec. 2 of the Sherman Act, where the foreign manufacturer of the goods imported in parallel and the trademark proprietor in the USA were so closely linked that the previously mentioned entities could be considered to be parts of a "single international business enterprise".[29] The US Department of Justice received a decision in its favour at first instance. In particular, the District Court of New York ruled that relying on the provision of Sec. 526 (a) of the Tariff Act of 1930 to prohibit a parallel importation is contrary to Sec. 2 of the Sherman Act, where the foreign manufacturer of the goods imported in parallel and the trademark proprietor in the USA were so closely linked that the previously mentioned entities could be considered to be parts of a "single international business enterprise".[30] The US Supreme Court allowed an appeal to be brought against the aforesaid ruling. However, the US Department of Justice, through the competent Federal Prosecutor, withdrew its prosecution.[31] Moreover, within US government, the view that the issue decided in the above ruling should be best resolved by legislation rather than court decision gained ground. As a result, legislation was proposed, the Cellar Bill,[32] which sought to restrict the scope of Sec. 526 (a) of the Tariff Act of 1930.[33]

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[26] Cf. also Verma (1998), pp. 543–544.

[27] Bicks (1959), p. 1260; Dam (1967), pp. 17–18; Hahm (1991), pp. 86–89.

[28] Derenberg (1960), pp. 598–599.

[29] *U.S. v. Guerlain, Inc.; U.S. v. Parfums Corday, Inc.; U.S. v. Lanvin Parfums, Inc.*, 155 F. Supp. 77 (D.C. New York 1957).

[30] *U.S. v. Guerlain, Inc.; U.S. v. Parfums Corday, Inc.; U.S. v. Lanvin Parfums, Inc.*, 155 F. Supp. 77, 80 (D.C. New York 1957).

[31] *U.S. v. Guerlain, Inc.; U.S. v. Parfums Corday, Inc.; U.S. v. Lanvin Parfums, Inc.*, 172 F. Supp. 107 (1959).

[32] H. R. 7234, 86th Congress, 1st Session. For that bill see Bicks (1959), pp. 1260–1261; Derenberg (1960), pp. 593–605.

[33] Kuhn (1980), p. 395.

However, that Bill never became law; therefore, the scope of Sec. 526 (a) of the Tariff Act of 1930 remained unaffected.

13.1.3.2 Sec. 42 of the Lanham Act of 1946[34]

Another weapon used by trademark proprietors to exclude parallel imports is to be found in Sec. 42 of the Lanham Act of 1946 [15 U.S.C. § 1124 (1982)/formerly Sec. 27 of the Trademark Act of 1905]. Sec. 42 of the Lanham Act of 1946 covers, in principle, counterfeit goods. But, as has been unanimously accepted, it also applies to genuine goods.[35] In particular, under Sec. 42 of the Lanham Act of 1946, it is prohibited to import (genuine or counterfeit) goods (manufactured in the US or abroad) that bear a trademark copying or simulating a trademark registered in the USA.[36] For genuine goods to be subject to Sec. 42 of the Lanham Act of 1946, it is dictated precisely by the semantic meaning of the term "risk of confusion", as the latter is perceived by the US courts. In particular, according to US case law, the purpose of Sec. 42 of the Lanham Act of 1946 is to prevent the possibility of confusing consumers as to the origin of goods available in the US market. However, a decisive factor in assessing whether there is a likelihood of confusion as to the origin of a product is the particular economic value that the trademark of the product symbolises in the US market.[37] Finally, it is submitted that, unlike Sec. 526 of the Tariff Act of 1930, Sec. 42 of the Lanham Act of 1946 covers all US trademarks, even if their proprietors do not have US citizenship.[38]

Under Sec. 42 of the Lanham Act of 1946, therefore, the proprietor of a US trademark can oppose the parallel importation of goods bearing the trademark by stating that the trademark so resembles a trademark recorded in the USA that it is likely to cause the public to associate the first of those trademarks with the second

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[34] In accordance with Sec. 42 of Lanham Act of 1946:

> Except as provided in subsection (d) of Section 526 of the Tariff Act of 1930, no article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trademark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States. . .

[35] See Kuhn (1980), pp. 388–389.

[36] Cf. the broad definition of "counterfeit goods" provided in 19 CFR § 133.21 (a): "A 'counterfeit trademark' is a spurious trademark that is identical to, or substantially indistinguishable from, a registered trademark".

[37] For the likelihood of confusion in the US law see Beier (1991).

[38] Nolan-Haley (1984), p. 245.

one. In other words, under Sec. 42 of the Lanham Act of 1946, the rights conferred by a trademark borne by genuine goods marketed outside the US are not considered to have been exhausted, irrespective of whether the trademark proprietor has US citizenship, provided that the aforementioned trademark copies or simulates a trademark registered in the US.

13.1.3.3 Limitation of the Scope of Sec. 526 (a) of the Tariff Act: 19 C.F.R. 133.21 (c) (1972): The *K Mart Corp. v. Cartier Inc.* Decision

In the first 50 years of implementation of Sec. 526 (a) of the Tariff Act, the US Customs Service issued various implementing regulations, which interpreted differently the aforesaid provision.[39] However, in 1972, the US Customs Service amended those regulations to permit parallel imports under Sec. 526 (a) of the Tariff Act where:

a) the trademark affixed to the parallel imported goods in the USA and in the country where the goods had been manufactured was owned by the same person or business entity[40];
b) the trademark affixed to the parallel imported goods in the USA and in the country where the goods had been manufactured were owned by the parent company and a subsidiary of a group or, in any case, by persons or business entities that were subject to common ownership or common control ("common ownership" exception—"common control" exception)[41];
c) the proprietor of the trademark affixed to the parallel imported goods in the USA had authorised the use of the trademark in the country where the goods were manufactured (even without authorising the importation of the goods into the USA) ("authorised used" exception) [19 CFR 133.21 (c) (1972)].[42]

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[39] See Oswald (2006–2007), p. 119 and n. 66 thereto.

[40] Cases (a) and (b) are often referred to as "affiliate exception". See *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1331–1332 (D.C. Cir. 1993).

[41] Cases (a) and (b) are often referred to as "affiliate exception". See *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1331–1332 (D.C. Cir. 1993).

[42] The above cases arise out of the interpretation of 19 C.F.R. 133.21 (c) (1972):

> The restrictions set forth [in Sec. 526 (a) Tariff Act, 42 Lanham Act] do not apply to imported articles when:
>
> (1) Both foreign and the US trademark or trade name are owned by the same person or business entity;
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or otherwise subject to common ownership or control;
> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.

The legitimacy of the above exceptions to the rule that a trademark proprietor can block a parallel importation in accordance with Sec. 526 (a) of the Tariff Act was challenged before the US courts. The result was the delivery of contradictory decisions by various circuit courts of appeals.[43] The question of the legality of the above exceptions was brought eventually before the US Supreme Court in *K Mart Corp. v. Cartier, Inc.*,[44] where an association of US trademark holders sought an injunction against the enforcement of the 1972 Customs Regulations, arguing that they were not a reasonable administrative interpretation of Sec. 526 (a) of the Tariff Act.[45] The US Supreme Court ruled, by a majority of its Members, that the "common ownership" exception and the "common control" exception (described together as "affiliate exception") constituted a "reasonable administrative interpretation" of Sec. 526 (a) of the Tariff Act[46]; however, the same did not apply to the "authorised used" exception.[47]

More precisely, on the basis of the statements made by the US Supreme Court in the *K Mart Corp. v. Cartier, Inc.* judgment, the US Customs Service and the proprietor of a trademark who holds US citizenship cannot, pursuant to Sec. 526 (a) of the Tariff Act, oppose a parallel importation where:

a) the trademark borne by the parallel imported goods in the USA and in the country where the goods have been manufactured are owned by the same person or business entity; or
b) the proprietor of the trademark borne by the parallel imported goods in the USA is the parent company or a subsidiary of the foreign manufacturer of the goods; or
c) in any case in which the proprietor of the trademark borne by the parallel imported goods in the USA and the foreign manufacturer of the goods are subject to common ownership or common control.

In the *K Mart Corp. v. Cartier, Inc.* judgment, the US Supreme Court recognised, therefore, the lawfulness of the "affiliate exception", i.e. the "common ownership" exception and "common control" exception established by 19 CFR 133.21 (c) (1972). On the contrary, according to the above-mentioned decision, the US Customs Service and the proprietor of a trademark who holds US citizenship can, pursuant to Sec. 526 (a) of the Tariff Act, prevent a parallel importation where:

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[43] See Oswald (2006–2007), p. 120 and n. 68 thereto.

[44] 486 U.S. 281 (1988). For the *K Mart Corp. v. Cartier, Inc.* judgment, see Allen (1988), Auvil (1995), Cinelli (1989), Davis (1989), Depperschmidt (1990), Fleischut (1989), Gorelick and Guttman (1988), Lach (1989), Mandra (1990), Mazur (1990), McNamara (1989), Mohr (1996), Seligman (1990), Tomlin (1989), Warlick (1990) and Weicher (1989).

[45] *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 290 (1988).

[46] *K Mart Corp. v. Cartier, Inc*, 486 U.S. 281, 294 (1988); *United States v. Eighty-Three Rolex Watches*, 992 F. 2d 508, 512–514 (5th Cir. 1993).

[47] *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 294 (1988).

a) the proprietor of the trademark borne by the parallel imported goods in the USA is an exclusive distributor of the foreign manufacturer of the goods, and, in addition, the foreign manufacturer and the trademark proprietor in the USA are not linked by a parent–subsidiary relationship and are not under common control or ownership; or
b) the proprietor of the trademark of the parallel imported goods in the USA authorised the foreign manufacturer of the goods to use the trademark.

The statements made by the US Supreme Court in the judgment in *K Mart Corp. v. Cartier, Inc.* have been already incorporated into the applicable Code of Federal Regulations, where also the concepts of "common ownership" and "common control" [19 CFR § 133.23 (a) (1) and (2) and § 133.2 (d)] are explained.

13.1.3.4 Limitation of the Scope of 19 C.F.R. 133.21 (c) (1972): The *Lever Brothers Co. v. United States* Decision (Material Difference Rule)

The *K Mart Corp. v. Cartier, Inc.* decision established the legality of parallel imports of trademarked goods where the trademark owner in the USA and the foreign manufacturer of the goods are the same person or business entity or are linked by a parent–subsidiary relationship or are under common control or ownership. However, the scope of parallel imports considered to be legal according to that decision was restricted by the judgment issued by the D.C. Circuit in *Lever Brothers Co. v. United States*[48] and the subsequent case law based on the aforementioned judgment.

The dispute in the *Lever Brothers Co. v. United States* case concerned the validity of 19 CFR 133.21 (c) (2) (1972) when the parallel imported goods differ in quality and packaging from the trademark owner's goods authorised for sale in the US. More precisely, the manufacturer and the owner of the trademark affixed to the parallel imported goods in that case was a subsidiary company of the trademark owner in the US. However, the goods imported in parallel and the trademark owner's goods made available in the US market were formulated differently to satisfy the consumer preferences and circumstances of the two different local markets and, in addition, were packaged differently.[49] On the basis of this finding, the trademark owner (in the US) opposed the contested parallel importation under Sec. 42 of the Lanham Act, arguing that such importation would harm the economic value of the trademark. Instead, the Customs Service allowed the contested parallel importation by virtue of the so-called affiliate exception.[50] In the Customs Service's view, goods imported in parallel were, by their nature, genuine and, therefore, could

[48] 981 F.2d 1330 (D.C. Cir. 1993). For the *Lever Brothers Co. v. United States* judgment, see Davis (1993), Flaherty (1994), Lewine (1993) and Tillman (1993).

[49] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993).

[50] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1331–1332 (D.C. Cir. 1993).

not be considered to be counterfeit within the meaning of Sec. 42 of the Lanham Act where the foreign manufacturer of the goods and the owner of the trademark affixed to the goods in the USA were linked by a parent–subsidiary company relationship or were under common control or common ownership.[51]

The District Court of Columbia rejected that the parallel importation in question amounted to a trademark infringement.[52] However, on appeal, the D.C. Circuit tentatively said, pending further consideration on remand, that where the trademark owner's goods authorised for sale in the USA are physically and materially different from parallel imported goods bearing a trademark that copies or simulates a US trademark, Sec. 42 of the Lanham Act prohibits parallel importation regardless of whether the trademark borne by the goods imported in parallel is genuine or whether there is an affiliation between the trademark owner in the USA and the foreign manufacturer of the goods imported in parallel.[53] After remand, the DC Circuit upheld its original considerations, adding that an affiliation between the owner of the trademark and the manufacturer of parallel imported goods of the type under examination did not reduce the probability of consumer confusion[54] and that, from the standpoint of the US consumer, trademarks applied to physically different foreign goods are not "genuine".[55] The D.C. Circuit concluded that Sec. 42 of the Lanham Act does not permit application of the "affiliate exception" where the parallel imported goods and the goods authorised for sale in the USA that bear the same trademark are physically and materially different (material difference rule).[56]

The statements made by the D.C. Circuit in *Lever Brothers Co. v. United States* have been incorporated into Customs Service Regulations since 1999. The relevant provisions [19 CFR § 133.23 (a) (3) (2005)], known as "Lever–Rule", ban the importation of genuine trademarked goods where the goods are physically and materially different from the goods that bear an identical trademark and are already in circulation in the USA. However, such a ban does not apply if the goods have been labelled with a conspicuous and legible notice that informs consumers, firstly, that the imported goods are not authorised by the proprietor of the trademark borne by the goods in the United States and, secondly, that they are physically and materially different from the goods authorised by the trademark proprietor [19 CFR § 133.23 (b)].

The "material difference rule" was further developed by the US courts. As implied by the US courts' case law, the purpose of that rule is, firstly, to prevent US consumers from being misled as to the characteristics of trademarked goods and, secondly, to prevent the goodwill symbolised by a trademark from being

[51] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1337–1338 (D.C. Cir. 1993).
[52] *Lever Brothers Co. v. United States*, 652 F. Supp. 403, 407 (D.D.C. 1987).
[53] *Lever Brothers Co. v. United States*, 877 F. 2d 101, 111 (D.C. Circuit).
[54] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993).
[55] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993).
[56] *Lever Brothers Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993).

damaged by the parallel importation of goods bearing that mark.[57] When the parallel imported goods are physically and materially different from the goods bearing an identical trademark that are marketed through authorised distribution channels, there is a risk for consumers being confused about the characteristics of goods bearing a particular trademark.[58] Consumers' confusion as to the characteristics of goods bearing a particular trademark is likely to affect consumers' perceptions of the desirability of the trademark owner's goods[59] and diminish the trademark's goodwill, which is in general protected by US law.[60] However, it is submitted that a prohibition on a parallel importation on the basis of the "material difference rule" is subject to the condition that the proprietor of the trademark demonstrates that the difference between the goods imported in parallel and the goods authorised by him for sale in the US market is such that a consumer would likely consider it relevant in a purchasing decision. Specifically, the US courts have made it clear that, for a parallel importation of trademarked goods to be prohibited pursuant to the "material difference rule", the difference between the goods and the goods authorised by the trademark proprietor for sale in the US market must not be so minimal that consumers who purchase the parallel imported goods "get precisely what they believed that they were purchasing".[61]

In the light of the foregoing considerations, the following have been identified by the US courts as cases where the goods imported in parallel and the authorised goods bearing the same trademark were physically and materially different:

(i) differences in ingredients, aesthetics, and packaging. In particular, the US courts have accepted that the goods imported in parallel and the authorised goods bearing the same trademark were physically and materially different:

  – in a case in which the parallel imported goods differed from the authorised goods (crackers) in that the latter contained enriched floor and the goods imported in parallel did not. According to the court's relevant statements, "The lack of enriched flour is a material difference as consumers may prefer a product that contains the extra vitamins and minerals contained in enriched flour"[62];
  – in a case in which the parallel imported goods differed from the authorised goods (PERUGINA chocolate pieces) in price, taste, and presentation and

[57] *Weil Ceramics & Glass Inc. v. Dash*, 878 F.29 659, 672 (3d. Cir. 1989).

[58] *Société des Produits Nestle v. Casa Helvetica, Inc.*, 982 F. 2d 633 (1st Cir. 1992), 641, 642.

[59] *Martin's Herend Imports Inc. et al. v. Diamond and Gem Trading USA Co et al.*, 112 F. 3d. 1296, 1302 (5th Cir. 1997).

[60] *Mishawaka Rubber & Woolen Mfg Co. v. S S Kresge Co.*, 316 U.S. 203, 205 (1942).

[61] *Iberia Foods Corp. v. Romeo,* 150 F. 3d 298 (3d. Cir. 1998); *Weil Ceramics & Glass Inc. v. Dash*, 878 F.29 659, 672 (3d. Cir. 1989).

[62] *Grupo Gamesa S.A. v. Dulceria El Molino, Inc.*, 39 U.S.P.Q. 2d (BNA) 1531, 1533 (C.D. Cal. Apr. 9, 1996).

also in that they were subject to different quality control measures and were made using different ingredients[63];
- in a case in which the parallel imported goods differed from the authorised goods (HEREND porcelain figurines) in colour, pattern, or shape[64];
- in cases where the parallel importers had changed the packaging of the parallel imported goods to remove identification numbers that their manufacturers had affixed to them on the ground that such a change created a risk of confusing consumers as to the manufacturers of the goods and, also, a risk of damage to the economic value of their trademarks[65];

(ii) differences in quality and the quality control procedures. In particular, the US courts have recognised that the goods imported in parallel and the authorised goods bearing the same trademark are physically and materially different where the parallel imported products are of inferior or even higher quality than the authorised goods.[66] Also, the US courts have held that the "material difference rule" allows the trademark proprietor to block parallel imports when the parallel imported goods have not been manufactured and distributed under the quality control procedures established by the trademark proprietor in the USA.[67] Indeed, according to the US case law, quality control measures may create subtle differences in quality that are difficult to measure but are important to consumers, and, therefore, trademark proprietors are not required to prove that the actual quality of the inspected goods is measurably higher than that of the uninspected goods.[68] As the First Circuit held in *Société des Produits Nestle v. Casa Helvetica, Inc.,* "substantial variance in quality control…creates a presumption of customer confusion as a matter of law".[69] Thus, when applying the "material difference rule", the test is whether the quality control procedures established by the trademark proprietor are likely to

[63] *Société des Produits Nestle v. Casa Helvetica, Inc.*, 982 F. 2d 633, 642–643 (1st Cir. 1992).

[64] *Martin's Herend Imports Inc. et al. v. Diamond and Gem Trading USA Co et al.*, 112 F. 3d. 1296, 1302 (5th Cir. 1997).

[65] *Davidoff & Cie, SA v. PLD Int'l Corp.*, 263 F. 3d 1297, 1303; *Montblanc—Simplo GMBH v. Staples, Inc.*, 172 F. Supp. 2d 231, 241 (D. Mass.).

[66] *Iberia Foods Corp. v. Romeo*, 150 F. 3d 298, 394 (3d. Cir. 1998); *Martin's Herend Imports Inc. et al. v. Diamond and Gem Trading USA Co et al.*, 112 F. 3d. 1296, 1302 (5th Cir. 1997).

[67] *Grupo Gamesa S.A. v. Dulceria El Molino, Inc.*, 39 U.S.P.Q. 2d (BNA) 1531 (C.D. Cal. Apr. 9, 1996); *El Greco Leather Products Co. v. Shoe World Inc.*, 806 F. 2d 392 (2d. Cir. 1986); *Helene Curtis, Inc. v. Nat'l Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 157 (E.D.N.Y. 1995).

[68] *El Greco Leather Products Co. v. Shoe World Inc.*, 806 F. 2d 392, 395 (2d. Cir. 1986), where the Second Circuit stated that "one of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark".

[69] *Société des Produits Nestle v. Casa Helvetica, Inc.*, 982 F. 2d 633, 643 (1st Cir. 1992); see also *Philip Morris, Inc. v. Allen Distrib., Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999); *Caterpillar, Inc. v. Nationwide Equip.*, 877 F. Supp. 611, 615 (M.D. Fla. 1994), where it is noted that "differences in quality control methods are material".

result in differences between the goods imported in parallel and the authorised goods such that consumer confusion regarding the person who manufactured the goods imported in parallel could injure the trademark owner's goodwill.[70] Here, it must be reminded that a decisive factor in assessing whether there is a likelihood of confusion as to the origin of a product is, in the US courts' view, the particular economic value that the trademark of the product symbolises in the US market[71];

(iii) differences in labelling, manuals, and other written materials. In particular, the US courts have held that the parallel imported goods and the authorised goods bearing the same trademark are physically and materially different where the goods imported in parallel have a label or include a manual not being written in English[72] or even not being written in American English.[73] As the Federal Circuit observed in *Gamut Trading Co. v. United States International Trade Commission*, where used Kubota tractors imported in parallel from Japan for sale in the USA had Japanese-language instructional and warning labels, operator manuals, and service manuals, while the foreign-language labels would be obvious to a US consumer, the consumer might not realise that he or she was not purchasing an authorised tractor or that parts and service were not available for the tractors from Kubota–US dealerships.[74] Also, a material difference between the parallel imported goods and the authorised goods was identified in a case where no warranty or a limited warranty was offered by the

[70] *Warner-Lambert Company v. Northside Development Corporation*, 86 F.3d 3 (2d. Cir. 1996).

[71] See *supra* Sect. 13.1.3.2.

[72] *Gamut Trading Co. v. United States International Trade Commission*, 200 F. 3d 775, 781 (arising under Section 337 of Tariff Act); *Bourdeau Bros., Inc. v. Int'l Trade Comm'n*, 444 F. 3d 1317, 1325 (Fed. Cir. 2006).

[73] *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 509 (E.D. La. 2003).

[74] *Gamut Trading Co. v. United States International Trade Commission*, 200 F. 3d 775, 781 (arising under Section 337 of Tariff Act). The legality of the prohibition of a parallel import pursuant to the "material difference rule" was also accepted in a case where the seller of the goods imported in parallel provided English-language manuals to purchasers of the goods. According to the Federal Circuit, the allegation of material differences caused by the inclusion of foreign-language operator manuals was not overcome by the seller providing English-language manuals to purchasers of gray market harvesters; rather, it "serve[d] to heighten confusion" as the foreign- and English-language manuals contained different information due to other differences between the goods imported in parallel and the goods authorised by the trademark proprietor for sale in the USA. See *Bourdeau Bros., Inc. v. Int'l Trade Comm'n*, 444 F. 3d 1317, 1325 (Fed. Cir. 2006). However, no material difference between the goods imported in parallel and the goods authorised (by the trademark proprietor) for sale in the USA was identified in a case where an English-language label was added to the goods imported in parallel (rear of containers of corn oil) originally intended for the market of Puerto Rico. The court found no evidence that consumers were confused or misled by the packaging and, in fact, found evidence that dual-language containers were beneficial to Hispanic consumers. See *CPC Int'l, Inc. v. Blandito Food Distrib. Corp.*, 835 F. Supp. 636, 638 (S.D. Fla. 1993).

seller of the parallel imported goods[75] and in a case where the label of the parallel imported goods did not comply with state or federal labelling requirements.[76]

Pursuant to Sec. 42 of the Lanham Act, therefore, a trademark proprietor can prevent a lawful, in principle under the "affiliate exception", parallel importation provided that he proves that the parallel imported goods are physically and materially different from the goods authorised by the trademark owner for sale in the USA. In particular, in the light of US case law, trademarked goods imported in parallel are not considered to be genuine from the perspective of US consumers and, by extension, are considered to violate Sec. 42 of the Lanham Act where physical differences or other sorts of material differences (e.g., differences in ingredients and aesthetic characteristics, quality and quality control measures, warranties, and labels or other written materials accompanying the goods imported in parallel) are identified between those goods and the goods made available by the distribution channels authorised by the trademark owner.[77] Finally, it should be stressed that, for a trademark proprietor to oppose a parallel importation under the "material difference rule", it suffices that a physical or a material difference existed at the time of the importation. Subsequent remedial measures by the parallel importer do not affect the application of the "material difference rule".[78]

13.1.3.5 The Incorporation of the *K Mart Corp. v. Cartier* and *Lever Brothers Co. v. United States* Decisions into US Positive Law: Sec. 337 of the 1930 Tariff Act

According to Sec. 42 of the Lanham Act and Sec. 526 (a) of the Tariff Act, the effective implementation of these rules is up to the US Customs Service, which is obliged to determine whether trademarked goods imported into the US fall under one of the previously mentioned cumulatively applicable rules.[79] 19 CFR § 133.23 also introduces the specific obligation of the US Customs Service to deny entry of trademarked goods whose parallel importation can be prevented on the basis of the

[75] *Fender Musical Instruments Corp. v. Unlimited Music Ctr., Inc.*, 35 U.S.P.Q. 2d (BNA) 1053, 1056 (D. Conn. Feb. 16, 1995). However, the application of the "material difference rule" was not accepted in a case where the guarantee according to which the parallel imported products were put on the market was the same as the guarantee provided for the authorised goods. See *Montblanc-Simplo GMBH v. Staples, Inc.*, 172 F. Supp. 2d 231, 240–241 & n. 10 (D. Mass. 2001).

[76] *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 509 (E.D. La. 2003); *Helene Curtis, Inc. v. Nat'l Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 159 (E.D.N.Y. 1995).

[77] *Société des Produits Nestle v. Casa Helvetica, Inc.*, 982 F. 2d 633 (1st Cir. 1992), 638.

[78] Cf. *Certain Agric. Tractors Under 50 Power Take-off Horsepower*, 44 U.S.P.Q. 2d (BNA) 1385 (U.S. ITC Mar. 12, 1997).

[79] It is made clear, however, that the implementation of Sec. 42 of the Lanham Act and Sec. 526 (a) of the Tariff Act by the US Customs Service is conditional on respect by the trademark owners of the formalities laid down by these provisions.

K Mart Corp. v. Cartier and *Lever Brothers Co. v. United States* decisions and, in addition, to detain such goods.[80]

In particular, in accordance with 19 CFR § 133.23 (a)–(c), the US Customs Service is required to deny entry to gray market goods that bear a trademark that belongs to a natural or a legal person or an association not having legal personality and that have been manufactured abroad and to detain such goods, provided that the goods fall within one of the following categories:

i) gray market goods that bear a trademark applied by an independent trademark licensee (including the manufacturer of the goods), namely a trademark licensee not linked, in any way, to the proprietor of the trademark in the USA, with the exception, of course, of the contract on the basis of which the trademark licence was granted. In this case, the proprietor of the trademark in the country where the trademark was affixed to the parallel imported goods (and where the parallel imported goods were manufactured) is also the proprietor of the trademark in the USA;
ii) gray market goods that bear a trademark applied under the control of a trademark proprietor who is neither the same as the proprietor of the trademark in the USA nor the parent company or a subsidiary of the proprietor of the trademark in the USA nor, in any event, is subject to common ownership or control with the proprietor of the trademark in the USA. The proprietor of the trademark in the country where the trademark was affixed to the parallel imported goods (and where the parallel imported goods were manufactured) acquired the trademark from the trademark proprietor in the USA or vice versa;
iii) gray market goods that bear a trademark applied under the control of a trademark proprietor who is either the same as the proprietor of the trademark in the USA or is the parent company or a subsidiary company of the trademark proprietor in the USA or, in any event, is subject to common ownership or common control with the proprietor of the trademark in the USA, where the goods have been deemed physically and materially different from the goods authorised (by the trademark proprietor in the USA) for importation or sale in the USA by the US Customs Service. However, the US Customs Service cannot deny entry to a physically and materially gray market good and detain it where the good (or its packaging) bears a conspicuous and legible label designed to remain on the good until the first point of sale to a retail consumer in the USA informing consumers that this good is not a good authorised (by the trademark proprietor in the USA) for importation and is physically and materially different from the product authorised by the trademark proprietor in the USA. The label

[80] It is also noted that a trademark owner is still able to act under Sec. 526 (c) Tariff Act and 43 (a) Lanham Act to enjoin importation or sale of gray market goods that violate either Sec. 526 (a) of the Tariff Act or Sec. 42 of the Lanham Act, respectively. See Palladino (1989), p. 204; Smart (1989), p. 1977; Steiner and Sabath (1989), p. 438;

must be in close proximity to the trademark as it appears in its most prominent location on the good itself or the retail package or container.[81]

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[81] In accordance with 19 C.F.R. § 133.23 (a)–(c):

(a) *Restricted gray market articles defined*. "Restricted gray market articles" are foreign-made articles bearing a genuine trademark or trade name identical with or substantially indistinguishable from one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States and imported without the authorization of the U.S. owner. "Restricted gray market goods" include goods bearing a genuine trademark or trade name which is:

(1) *Independent licensee*. Applied by a licensee (including a manufacturer) independent of the U.S. owner, or
(2) *Foreign owner*. Applied under the authority of a foreign trademark or trade name owner other than the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§133.2 (d) and 133.12 (d) of this part), from whom the U.S. owner acquired the domestic title, or to whom the U.S. owner sold the foreign title(s); or
(3) "*Lever-rule*". Applied by the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§133.2 (d) and 133.12 (d) of this part), to goods that the Customs Service has determined to be physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S. (as defined in §133.2 of this part).

(b) *Labelling of physically and materially different goods*. Goods determined by the Customs Service to be physically and materially different under the procedures of this part, bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§133.2 (d) and 133.12 (d) of this part), shall not be detained under the provisions of paragraph (c) of this section where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale to a retail consumer in the United States stating that: "This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product". The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.
(c) *Denial of entry*. All restricted gray market goods imported into the United States shall be denied entry and subject to detention as provided in §133.25, except as provided in paragraph (b) of this section.

Also, in accordance with 19 C.F.R. § 133.2 (e) and (f):

(e) *Lever-rule protection*. For owners of U.S. trademarks who desire protection against gray market articles on the basis of physical and material differences [see *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993)], a description of any physical and material difference between the specific articles authorized for importation or sale in the United States and those not so authorized. In each instance, owners who assert that physical and material differences exist must state the basis for such a claim with particularity, and must support such assertions by competent evidence and provide summaries of physical and material differences for publication. Customs determination of physical and material differences may include, but is not limited to, considerations of:

(1) The specific composition of both the authorized and gray market product(s) (including chemical composition);

It is clarified that in accordance with 19 CFR § 133.2 (d) (1), (2) the company-proprietor of the trademark of the parallel imported goods in the USA and the company-proprietor of the trademark in the country where the trademark was affixed to the parallel imported goods (and where the parallel imported goods were manufactured) are under common ownership when the first company owns more than 50 % of the second one or vice versa or when a third party owns more than 50 % of the two companies. Also, the company-proprietor of the trademark of the parallel imported goods in the USA and the company-proprietor of the trademark in the country where the trademark was affixed to the parallel imported goods (and where the parallel imported goods were manufactured) are under common control when the first company exercises effective control over the second company's policy and operations or vice versa or when a third party exercises effective control over the two companies' policies and operations.[82]

The US Customs Service is required to detain gray market goods falling within one of the above categories for 30 days from the date on which the goods are presented for Customs examination. Within this period, the parallel importer can demonstrate that the importation of the goods is lawful on the basis that:

i) the trademark borne by the goods was applied under the control of a trademark proprietor who is either the same person as the proprietor of the trademark in the USA or the parent company or a subsidiary of the proprietor of the trademark in the USA or, in any event, is subject to common ownership or control with the proprietor of the trademark in the USA; and/or
ii) the trademark borne by the goods was applied under the control of a trademark proprietor who is either the same person as the proprietor of the trademark in the

(2) Formulation, product construction, structure, or composite product components, of both the authorized and gray market product;
(3) Performance and/or operational characteristics of both the authorized and gray market product;
(4) Differences resulting from legal or regulatory requirements, certification, etc.;
(5) Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.

(f) Customs will publish in the Customs Bulletin a notice listing any trademark(s) and the specific products for which gray market protection for physically and materially different products has been requested. Customs will examine the request(s) before issuing a determination whether gray market protection is granted. For parties requesting protection, the application for trademark protection will not take effect until Customs has made and issued this determination. If protection is granted, Customs will publish in the Customs Bulletin a notice that a trademark will receive *Lever*-rule protection with regard to a specific product.

[82] In accordance with 19 C.F.R. § 133.2 (d) (1), (2):

(d) The identity of any parent or subsidiary company or other foreign company under common ownership or control which uses the trademark abroad. For this purpose:

(1) *Common ownership* means individual or aggregate ownership of more than 50 percent of the business entity; and
(2) *Common control* means effective control in policy and operations and is not necessarily synonymous with common ownership.

USA or is the parent company or a subsidiary of the proprietor of the trademark in the USA or, in any event, is subject to common ownership or control with the proprietor of the trademark in the USA, and, in addition, the goods are not physically and materially different from the goods authorised (by the trademark proprietor in the USA) for importation or sale in the USA;

iii) the trademark borne by the goods was applied under the control of a trademark proprietor who is either the same person as the proprietor of the trademark in the USA or is the parent company or a subsidiary of the proprietor of the trademark in the USA or, in any event, the two proprietors are under common ownership or common control, and, in addition, the goods are physically and materially different from the goods authorised (by the trademark owner in the USA) for importation or sale in the USA, but they (or their packaging) bear a conspicuous and legible label designed to remain on the goods until the first point of sale to retail consumers in the USA informing consumers that those goods are not goods authorised (by the trademark owner in the USA) for importation and are physically and materially different from the goods authorised by the trademark owner in the USA. The label must be in close proximity to the trademark as it appears in its most prominent location on the good itself or the retail package or container [19 C.F.R. § 133.23 (d)].[83]

If any of the foregoing circumstances within the 30 day period is demonstrated, the US Customs Service may release the gray market goods to the importer [19 CFR § 133.23 (e)].[84] If the importer has not obtained release of detained gray market goods within the 30-day period of detention, the goods are seized and forfeiture

[83] The accurate text of 19 C.F.R. § 133.23 (d) is as follows:

(d) *Relief from detention of gray market articles.* Gray market goods subject to the restrictions of this section shall be detained for 30 days from the date on which the goods are presented for Customs examination, to permit the importer to establish that any of the following exceptions, as well as the circumstances described above in §133.22 (c), are applicable:

(1) The trademark or trade name was applied under the authority of a foreign trademark or trade name owner who is the same as the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (in an instance covered by §§133.2 (d) and 133.12 (d) of this part); and/or

(2) For goods bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner, that the merchandise as imported is not physically and materially different, as described in §133.2(e), from articles authorized by the U.S. owner for importation or sale in the United States; or

(3) Where goods are detained for violation of §133.23 (a) (3), as physically and materially different from the articles authorized by the US trademark owner for importation or sale in the U.S., a label in compliance with §133.23(b) is applied to the goods.

[84] In accordance with 19 C.F.R. § 133.23 (e):

(e) *Release of detained articles.* Articles detained in accordance with §133.25 may be released to the importer during the 30-day period of detention if any of the circumstances allowing exemption from trademark restriction set forth in §133.22(c) of this subpart or in paragraph (d) of this section are established.

proceedings are instituted. The importer is notified of the seizure and liability of forfeiture and his right to petition for relief in accordance with the provisions of Part 171 of Title 19 of the Code of Federal Regulations [19 CFR § 133.23 (f)].[85]

Finally, in the examination of the legal treatment of parallel imports of trademarked goods in the US, the administrative procedure under Sec. 337 of the Tariff Act of 1930[86] (19 USC § 1337)[87] is also important.

The implementation of Sec. 337 of the Tariff Act is not up to the US courts but up to the International Trade Commission (ITC), which holds responsibilities of a judicial nature. Under Sec. 337 of the Tariff Act of 1930, protection against unfair acts of competition in the importation of goods into the USA or in the sale of imported goods that either pose a threat to US industry or restrain or monopolise trade in the USA may be sought. Also, Sec. 337 of the Tariff Act of 1930 bars the importation of goods that infringe registered trademarks and other federally registered intellectual property rights such as patents, copyrights, and semiconductor mask works [19 USC § 1337 (a)]. Therefore, through the procedure laid down by Sec. 337 of the Tariff Act, a parallel importation of trademarked goods, which also may be prevented under Sec. 42 of the Lanham Act, Sec. 526 (a) of the Tariff Act and 19 CFR § 133.23, may be prevented. At the request of the proprietor of a trademark or the US Customs Service, the ITC applies a formal quasi-judicial process. The advantages of Sec. 337 of the Tariff Act in comparison to actions against gray market goods under Sec. 42 of the Lanham Act and Sec. 526 (a) of the Tariff Act, which must be brought in district court, are its expedited procedures, "in rem" jurisdiction, and broad relief.[88]

If the ITC finds that the parallel importation under consideration infringes the trademark affixed to the imported goods, the ITC can bar the entry of the goods through an exclusion order [19 USC § 1337 (d)]. Moreover, in addition to or instead of barring the entry of the goods imported in parallel, the ITC can take direct action against persons deemed to be in violation of Sec. 337 of the Tariff Act through the use of cease and desist orders [19 USC § 1337 (f)]. Where a case involves

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[85] In accordance with 19 C.F.R. § 133.23 (f):

(f) *Seizure*. If the importer has not obtained release of detained articles within the 30-day period of detention, the merchandise shall be seized and forfeiture proceedings instituted. The importer shall be notified of the seizure and liability of forfeiture and his right to petition for relief in accordance with the provisions of part 171 of this chapter.

[86] See, in detail, Bagley (1995).

[87] Regarding the trademark right, Sec. 337 Tariff Act states:

Sec. 337. UNFAIR PRACTICES IN IMPORT TRADE.

(a) Unfair Methods of Competition Declared Unlawful.–

(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

. . .

(C) the importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

[88] Bagley (1995), p. 1544.

trademarked goods that are being imported in parallel in violation of a previously issued exclusion order, the ITC, in addition to issuing a new exclusion order, may order that the goods "be seized and forfeited to the United States" [19 USC § 1337 (i)]. The goods can only be forfeited if, at the time the goods were previously denied entry, the owner, importer, or consignee received written notice of both the order and the "seizure and forfeiture that would result from any further attempt to import the article[s] into the United States" [19 USC § 1337 (i)].[89] Although the ITC cannot award damages, a complainant can bring a parallel action in district court, where such relief is available.[90]

The main drawback to Sec. 337 of the Tariff Act actions is that even if the ITC determines that a violation exists and issues a remedial order, the determination can be disapproved by the President of the ITC for "policy reasons" [19 USC § 1337 (j)].[91] More specifically, Sec. 337 of the Tariff Act requires that all ITC determinations be published in the Federal Register and transmitted to the President [19 U.S.C. § 1337 (j) (1) (A), (B)]. If the President does not notify the Commission of his approval or disapproval within 60 days of receiving a copy of the determination, the ITC's action will become final and will remain in force until the ITC determines that the conditions requiring the order no longer exist [19 U.S.C. § 1337 (j) (2)–(4), (k) (1)]. If the action is disapproved, it will have no further force or effect [19 U.S.C. § 1337 (j) (2)]. During the 60-day referral period, the goods in question would be allowed to enter the USA under bond [19 U.S.C. § 1337 (j) (3)]. Although presidential disapproval of an ITC determination is rare, the fact that it is essentially unreviewable means that the possibility of a presidential disapproval can create a level of uncertainty for potential Sec. 337 of the Tariff Act complainants.[92]

13.1.4 Remarks

It follows from the foregoing analysis that US trademark law recognises de facto the principle of national exhaustion of rights. Indeed, under that law, it is not possible to exercise a trademark right to exclude a parallel import where the proprietor of the trademark borne by the imported goods in the US is the same as the manufacturer of the goods or where the proprietor of the trademark of the goods in the US and the manufacturer of the goods are companies that are subject to common ownership or common control. In other words, under US trademark law,

[89] See also Bagley (1995), p. 1558.

[90] See Bagley (1995), p. 1557 n. 96.

[91] Bagley (1995), pp. 1558–1559. Sec. 337 of the Tariff Act does not define "policy reasons", but the Court of Appeals for the Federal Circuit has indicated, *in dicta*, that policy reasons may include impact on U.S. foreign relations, or upon the public health, welfare, and competitive conditions in the U.S. economy. See Bagley (1995), p. 1559 n. 104.

[92] See Bagley (1995), p. 1559, and n. 109 and 110 thereto.

parallel imports of trademarked goods are, in principle, lawful where the manufacturer of the goods is the same as the proprietor of the trademark in the US or both the manufacturer of the goods and the trademark proprietor in the US are companies belonging to the same group or the manufacturer of the goods is a business division of the trademark proprietor in the US or vice versa or, lastly, the manufacturer of the goods and the trademark proprietor in the US are parts of a "single international business enterprise". However, the scope of the permitted parallel imports is limited drastically by the "material difference rule". According to the aforementioned rule, it is possible to prevent every lawful, in principle, parallel importation of trademarked goods, provided that the goods are physically and materially different from the goods authorised for sale by the trademark proprietor in the USA. Thus, based on the scope of the parallel imports permitted under Sec. 42 of the Lanham Act, Sec. 526 of the Tariff Act and 19 CFR § 133.23, US law recognises de facto a national exhaustion of trademark rights regime.

However, it should be stressed that the rationale of the national exhaustion of trademark rights regime, which is de facto recognised by US law, differs from the rationale of the regime of regional exhaustion of the exclusive right flowing from the national trademark and the exclusive right flowing from the Community trademark, which is explicitly established in EU law. More specifically, the recognition of the principle of national exhaustion of rights by US trademark law is motivated by the need to protect the economic value that the trademarks affixed to parallel imported goods symbolise in the US market.[93] On the contrary, the recognition of regional exhaustion of national trademark rights and Community trademark rights by EU law is motivated by considerations regarding the protectionism of business entities operating in the European Union against parallel imports from countries outside the EEA, as it follows from the travaux préparatoires of Regulation (EC) 40/94 and Directive 89/104/EEC.[94]

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[93] It is interesting to note that in the light of US law on trademarks the protection of the economic value of the trademark is as important as the protection of the function of origin of the trademark. See, by reference to Hiebert (1990), pp. 484–485, and Peterman (1993), p. 169, the following passage from a Report of the American Congress on the Lanham Act of 1946, S.Rep. No. 1333, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S.C.C.A.N. 1274, where it is stated:

> The purpose underlying any trademark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent the energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trademark owner.

[94] See *supra* Sect. 9.4.5.4.

13.2 Exhaustion of Trademark Rights and Legality of Parallel Imports in China

The rapid growth of China's exports over the last two decades has made China the second most important trading partner of the European Union. However, despite the fact that the question of which exhaustion of trademark rights regime is adopted by that country is of particular interest, such a regime cannot be determined by reference to Chinese legislation or courts' case law. In particular, neither does Chinese trademark law[95] acknowledge a doctrine of national or international exhaustion of trademark rights nor can such a doctrine be inferred de facto from the aforesaid law. Furthermore, Chinese courts have not yet examined the possibility of excluding parallel imports by reference to trademark protection.[96] More specifically, the first case that, based on its facts, seemed to be a parallel import of trademarked goods case (*Lux* case) was not treated as such by the court seized (Guangzhou Intermediate People's Court). In particular, in *Lux*, the court avoided reaching the parallel import issue by holding that the defendant failed to prove that it had made the imported goods under the authorisation of the trademark owner. In other words, the court said that the imported goods were counterfeit goods and could be barred from importation on that simple basis.[97] A second case in which a true parallel import of trademarked goods situation was involved was decided in 2003 by the Beijing No. 2 Intermediate People's Court (*An*'*ge* case). However, the legality of the contested importation was assessed under Anti-Fair Competition Law (AUCL), and thus the court did not take any position on the issue of exhaustion of trademark rights.[98] Finally, no position on the issue of exhaustion of trademark rights is identified in a recent decision related to parallel imports of trademarked goods by the Changsha Intermediate People's Court (*Michelin* case). In particular, the court avoided deciding the case on the basis of the exhaustion rule by finding that the parallel imported goods had not obtained a Chinese compulsory product certification (the so-called 3C certification), a government approval that indicates that a product meets national safety standards.[99]

[95] Trademark Law of the People's Republic of China, of August 23, 1982 (Source: WIPO).

[96] See, in general, Chow (2011).

[97] Case *Shanghai Lever (China) v. Guangzhou Trade Corp*. For the aforementioned decision see Yuan (2003); Yu (2004a), pp. 27–30; Yu (2004b), pp. 106–107.

[98] Case *Fahuayilin Inc. v. Shijihengyuan Inc. & Taipingyang Department Store*. See Yu (2004b), pp. 108–109.

[99] Case *Michelin Group v. Tan Guoqiang and Ou Can*. See Haiying (2010).

13.3 Exhaustion of Trademark Rights and Legality of Parallel Imports in Russia

Russia has also become one of the most important trading partners of the European Union over the last decade. Until 2002, Russia recognised legislatively the principle of international exhaustion of trademark rights (Article 23 of # 3520-1 of 23 September 1992[100]). In 2002, the exhaustion of rights provision of the Federal Trademark Law was amended[101] and now it establishes the principle of national exhaustion of rights. That amendment was probably due to an increase of import volumes and to the fact that most countries of Commonwealth of Independent States acknowledge a doctrine of national exhaustion of rights. Besides, another reason for that amendment might be the fact that in the European Union trademark proprietors can block parallel imports from countries outside the EEA, including of course Russia.

13.4 Exhaustion of Trademark Rights and Legality of Parallel Imports in Switzerland

Switzerland maintains strong trade ties with the EU Member States, which are the main recipients of its exports. Swiss exports to European Union Member States relate, in particular, to products of the chemical industry and the food industry.

Under the 1891 Swiss Trademark Law, the case law of the Swiss Federal Supreme Court did not take a clear position on the issue of exhaustion of trademark rights.[102] In the *Omo* judgment,[103] the Swiss Federal Supreme Court held that a trademark proprietor could not prevent the parallel importation of goods protected by the trademark that were manufactured and put on the market by a company belonging to same group. Under such circumstances, there would be no risk of Swiss consumers' confusion as to the origin of the goods. These assessments could be regarded as an implied recognition of the principle of international exhaustion of trademark rights. However, in the above-mentioned ruling, the Swiss Federal Supreme Court also accepted that a trademark proprietor was entitled to prevent the parallel importation of goods bearing the trademark where such goods were materially different from the goods authorised for sale in Switzerland by the trademark proprietor, because in such a case a likelihood of confusion as to the origin of the goods imported in parallel could be created.[104]

[100] Source: WIPO.

[101] Amending law: 166-FL of December 11, 2002 (Source: WIPO).

[102] In *Lux* (78 II BGE 165 = GRUR Int. 1953, 42), the Swiss Federal Supreme Court ruled against international exhaustion, while in *Philips* (86 *II* 270 = *GRUR Int*. 1961, 294), in favour of international exhaustion of the rights conferred by the trademark.

[103] BGH 105 II 49.

[104] BGH 105 II 56.

The new Swiss Trademark Law of 1992,[105] although it transposes, in the course of Switzerland's so-called autonomous implementation of European law program,[106] many of the provisions of Directive 89/104/EEC into the Swiss law, nevertheless it contains no provision regarding the exhaustion of trademark rights. However, in *Chanel v. Epa*,[107] the Swiss Federal Supreme Court ruled in favour of the international exhaustion of trademark rights.

The issue at hand in *Chanel v. Epa* was the legality of parallel imports of trademarked goods that were absolutely identical to those sold by authorised distributors in the Swiss market. The Swiss Federal Supreme Court decided that the trademark is subject to the principle of international exhaustion. This finding was based mainly on the assessment that the previously mentioned principle is more compatible with the origin function of the trademark, which is the function of the trademark mainly protected by the law, and also on the idea of trade liberalisation and the provision of Article 16 (1) of the TRIPs Agreement.[108] Also, in the court's view, Directive 89/104/EEC did not exclude the Member States of the European Community from adopting a regime of international exhaustion of trademark rights.

On the basis of the foregoing, Switzerland adopts, through its courts' case law, the principle of international exhaustion of trademark rights, and parallel imports of trademarked goods are, at least in principle, lawful.[109]

13.5 Exhaustion of Trademark Rights and Legality of Parallel Imports in Norway

Norway is one of the Member States of the European Free Trade Association and European Economic Area (EFTA/EEA Member States). Until the adoption of Directive 89/104/EEC, the Norwegian trademark law implicitly recognised the principle of international exhaustion of rights.[110] This was originally found by the EFTA Court to be compatible with Directive 89/104/EEC, which was binding also on the EEA Member States, as is currently Directive 2008/95/EC.[111] However, in its recent ruling in *L'Oréal Norge AS and others v. Per Aarskog AS and others*, the

[105] Bundesgesetz vom 28.08.92 über den Schutz von Marken und Herkunftsangaben (Markenschutzgesetz, MSchG), SR 232.11. Source: WIPO.

[106] See, in general, Baudenbacher (1992).

[107] BGE 122 III 459 = GRUR Int. 1998, 520—*Chanel*, with note by Roland Knaak. See also Baudenbacher (2000), p. 590; Baudenbacher and Joller (1997); Perret (1997).

[108] Cf. Cottier (1995), pp. 53–55, who, as analysed in Part II, argues, in the light of Article 16 (1) of the TRIPs Agreement, for the lawfulness of parallel imports of trademarked goods. See *supra* Sect. 3.3.

[109] Cf. also Arnold (2000), p. 42; Lutz (2000), p. 496; Stucki (1997), p. 34.

[110] Case E-2/97, *Mag Instrument Inc. v. California Trading Company Norway, Ulsteen*, 3 EFTA Court Reports 1997, 127, para. 8.

[111] Case E-2/97, n. 110 above. See *supra* Sect. 9.4.4.1.

EFTA Court chose to fall into line with the case law of the Court of Justice of the European Union and, particularly, with the *Silhouette International Schmied v. Hartlauer Handelsgesellschaft* judgment by deciding that Article 7 (1) of Directive 89/104/EEC [now Article 7 (1) of Directive 2008/95/EC] prohibits the EFTA/EEA Member States from adopting the principle of international exhaustion of trademark rights.[112] Lastly, it is pointed out that the Norwegian Trademark Law of 2010 explicitly establishes what is applicable under Article 7 of Directive 2008/95/EC and Article 2 (1) of Protocol 28 to the EEA Agreement [Article 6 of the Trademarks Act (Act No. 8 of March 26, 2010)].[113]

13.6 Exhaustion of Trademark Rights and Legality of Parallel Imports in Turkey

The fact that Turkey has been approved as a candidate country for EU Membership has obviously helped the inclusion of that country among the ten major trading partners of the European Union. Despite the constantly growing volume of Turkish exports to EU Member States, Turkey's trademark law introduces a rule of national exhaustion of trademark rights and provides for the exclusion of the aforementioned rule where the condition of trademarked goods is changed or impaired after they have been put on the market [Article 13 of Decree-Law No. 556 on the Protection of Trademarks (of June 27, 1995)]. As has been pointed out, the recognition of a regime of national exhaustion of rights by the Turkish trademark law is rather motivated by protectionist considerations in favour of domestic undertakings/industry.[114]

13.7 Exhaustion of Trademark Rights and Legality of Parallel Imports in Japan

Japan is also a country with substantial exports to the Member States of the European Union.

The Japanese Trademark Law does not address the question of the legality of parallel imports,[115] namely it does not introduce, explicitly or de facto, a specific rule on exhaustion of trademark rights. Therefore, to determine the regime of exhaustion of trademark rights adopted in Japan, the statements by the Japanese

[112] Joined Cases E-9/07 and E-10/07, *L'Oréal Norge AS and others v. Per Aarskog AS and others*, EFTA Court Report 2007, 259. See *supra* Sect. 9.4.4.3.

[113] Source: WIPO.

[114] See Taylan (2003).

[115] Law No. 127/ April 13, 1959.

courts regarding the legality of parallel imports of trademarked goods are critical.[116]

Thus, in accordance with the decisions delivered by the Japanese courts until the late 1960s, parallel imports of trademarked goods amounted to trademark infringements. However, the Japanese courts' approach to the issue of the legality of such imports has been changed since the early 1970s.[117] So, in *Parker*,[118] the Osaka District Court ruled in favour of the legality of parallel imports of trademarked goods on the basis that no consumers' confusion as to the origin of trademarked goods imported in parallel arises in cases where the trademark owner in Japan is the same as the trademark owner in the exporting country or a special link between the two trademark owners exists so that both persons can be regarded as one person. However, the court also made the legality of parallel importation of trademarked goods subject to the conditions that the quality of the goods imported in parallel is similar to the one of the goods authorised for sale by the trademark owner in Japan and that the trademark owner in Japan has established no goodwill of its own. Hence, the Osaka District Court accepted, in the *Parker* decision, at least in principle, the principle of international exhaustion of trademark rights; however, it also stressed the need to protect not only the origin function but also the economic value of a trademark in assessing the legality of parallel imports.[119]

In the mid-1990s, the Tokyo High Court judged, in its ruling in *Japauto Products Co. vs. BBS Kraftfahrzeugtechnik AG*,[120] which concerned the exhaustion of both the trademark right and the patent right, that the proprietor of an intellectual property right may not prevent the parallel importation of goods protected by his right, irrespective of the country where the goods were put on the market. This finding was based on the note that the first putting on the market of a good protected by an intellectual property right allows sufficiently the proprietor of the right to realise the economic value of the right. In the Tokyo High Court's view, non-recognition of the principle of international exhaustion of intellectual property rights would raise barriers to the free movement of goods across countries. Such a result would be detrimental to the development of the domestic economy.

The ruling of the Tokyo High Court in *Japauto Products Co. vs. BBS Kraftfahrzeugtechnik AG* was fully confirmed with respect to the trademark right by the Japanese Supreme Court.[121] In particular, the latter confirmed that the trademark right is subject to the regime of international exhaustion.

On the basis of the foregoing, Japan adopts, through its court's case law, a doctrine of international exhaustion of trademark rights, and parallel imports of

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[116] See Heath (1993), p. 179.

[117] See Heath (2004), p. 60 and n. 25 thereto (2004).

[118] Osaka District Court, 2 IIC 325 = GRUR Int. 1971, 276—*Parker*.

[119] Albert and Heath (1996), p. 278; Donnelly (1997), p. 484; Takamatsu (1982), p. 441.

[120] Tokyo High Court, GRUR Int. 1995, 417—*Japauto Products Co. vs. BBS Kraftfahrzeugtechnik AG*. For the previously mentioned decision, see Beier (1996) and Yamamoto (1995).

[121] Supreme Court, 29 *IIC* 334 (1998) = *GRUR Int.* 1998, 168—*BBS Wheels III*.

trademarked goods are, at least in principle, lawful.[122] It is worth noting that the legality of such imports has been also recognised by the Japanese Fair Trade Commission in FTC Guidelines concerning distribution systems and parallel imports (11 July 1991).[123]

13.8 Exhaustion of Trademark Rights and Legality of Parallel Imports in India

India is the seventh most important trading partner of the European Union, with ever stronger presence in the world export trade. As noted in Chap. 1 to this book, major exporting countries adopt normally the principle of international exhaustion of trademark rights. India is no exception to this rule. Indeed, the aforesaid principle has been incorporated into Indian trademark law, which also provides for the exclusion of the principle in question where the trademark proprietor has "legitimate reasons" to oppose parallel importation of goods bearing the trademark, especially where the condition of the goods has been changed or impaired after they have been put on the market [Article 30 (3), (4) of the Trademarks Act, 1999 (No. 47 of 1999)].[124] Finally, under limited circumstances, trademark owners may seek common law remedies against parallel importers for alleged acts of infringement or passing off.[125]

13.9 Exhaustion of Trademark Rights and Legality of Parallel Imports in Brazil

Brazil is also among the major trading partners of the European Union that adopt the principle of national exhaustion of trademark rights. The aforementioned principle is recognised by law [Article 132 (III) of Law No. 9279 of 14 May 1996].[126] This is despite the fact that Brazil is a Member State of Mercosur, whose legal framework on trademarks establishes the principle of international

[122] This conclusion is drawn from the thorough analysis of Japanese case law made by *Heath* (Heath 2004, pp. 58–66). However, it follows also from Japanese case law that a trademark owner is entitled to block a parallel importation where the quality of the goods imported in parallel is substantially different from the one of goods authorised for sale in Japan and that the repackaging of trademarked goods imported in parallel amounts to trademark infringement where it has affected the quality of the goods.

[123] Heath (1993), p. 183.

[124] Source: WIPO.

[125] See, in detail, Baldia (2004), pp. 169–170.

[126] Source: WIPO.

exhaustion of rights (Article 13 of the Protocol on Harmonization of Norms on Intellectual Property in Mercosur in Matters of Trademarks, Indications of Source and Appellations of Origin 460, August 5, 1995).[127] This derogation seems to be favoured by the fact that Mercosur, unlike the European Union and European Economic Area, does not have a judicial institution, which could reject that its Member States are able to acknowledge a doctrine of national exhaustion of rights. As has been pointed out, the recognition of a regime of national exhaustion of trademark rights under Brazilian law is motivated by protectionist considerations in favour of domestic undertakings/industry.[128]

13.10 Exhaustion of Trademark Rights and Legality of Parallel Imports in South Korea (Republic of Korea)

South Korea has always been one of the major trading partners of the European Union. South Korea's trademark law does not contain a rule of exhaustion of rights. However, it follows from the statements made by the Supreme Court of South Korea in *Polo*[129] that the court recognises a doctrine of national exhaustion of trademark rights. In particular, in the *Polo* judgment, the Supreme Court of South Korea accepted the legality of parallel imports of trademarked goods only under the condition that the three following circumstances are met: firstly, there is no domestic production of goods identical to the parallel imported ones under the same trademark; secondly, there is a special relationship between the person making exclusive use of the trademark of the parallel imported goods in South Korea (domestic exclusive licensee) and the foreign trademark owner (trademark owner in the exporting country), namely the two persons are parts of a single international enterprise or belong to the same group of companies; and, thirdly, the quality of the parallel imported goods is comparable to the one of the goods produced by the domestic exclusive licensee.[130] Moreover, it is submitted that there are restrictions on exactly what kind of goods can be imported in parallel and how they can be advertised once they have crossed the border.[131]

So, in the light of the case law of the Supreme Court and the legal framework of South Korea, it can be said that South Korea recognises a regime of national exhaustion of trademark rights.

[127] Source: WIPO.

[128] See Stirling (1992–1993), pp. 306–307.

[129] Supreme Court, 10.10.1997 (96 Do 2191), 30 IIC 459 (1999)—*Polo*.

[130] See, in detail, Byung–Il (2004), pp. 78–81.

[131] Liew (2009).

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Chapter 14
Conclusion to Part IV

Therefore, an overview of the legislation and case law on the legality of parallel imports of trademarked products of the ten major trading partners of the European Union shows that most of these states recognise a doctrine of national exhaustion of trademark rights (the USA, Russia, Turkey, South Korea, and Brazil). On the other hand, only three of these states recognise a doctrine of international exhaustion of trademark rights (Switzerland, Japan, and India). Further, it is noted that among the three most important trading partners of the European Union, two of them (the USA and Russia) recognise a doctrine of national exhaustion of trademark rights, whereas the viewpoint of one of them (China) is vague about the issue of the legal treatment of parallel imports under trademark law. In the light of that data and the data arising from the travaux préparatoires of Directive 89/104/EEC and Regulation (EC) 40/94 regarding the reasons why the principle of international exhaustion of trademark rights was not established in the aforesaid Community instruments,[1] Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 should not be expected to be subject to amendment, in this author's opinion, at least in the near future, so as to provide for a regime of international exhaustion of the rights conferred by national and Community trademarks, respectively.

[1] See *supra* Sect. 9.4.5.4.

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Part V
Conclusion

Chapter 15
Final Remarks

1. The issue of the legality of parallel imports of trademarked goods concerns the legal treatment of imported trademarked goods that, although genuine and legally put on the market for the first time, are marketed in the country of importation without the authorisation of the proprietor of the trademark borne by the goods.
2. The classic principle developed on an international level to resolve the problem of the legality of parallel imports of trademarked goods is the doctrine of exhaustion of rights (also known as principle or rule or theory of exhaustion of rights), which includes three types (the principle of national exhaustion of rights, the principle of regional exhaustion of rights, and the principle of international exhaustion of rights). According to the principle of national exhaustion of trademark rights, which is recognised mainly by developing African nations, small countries having a low presence in international commerce, or even large countries having an emerging presence in international commerce, the proprietor of a trademark may prevent parallel imports of goods (individual items of a product) bearing his trademark, save if the goods have been put on the market in the importing country by the proprietor himself or with his consent. According to the principle of regional exhaustion of trademark rights, which is recognised by the Member States of the European Economic Area (EEA), the proprietor of a trademark may prevent parallel imports of goods (individual items of a product) bearing his trademark, except if the goods have been put on the market in the EEA by the proprietor himself or with his consent. Finally, according to the principle of international exhaustion of trademark rights, which is recognised mainly by major exporting countries, the proprietor of a trademark cannot prevent parallel imports of goods (individual items of a product) bearing his trademark, provided that the goods have been put on the market in any country by the proprietor himself or with his consent. The doctrine of exhaustion of trademark rights is not applicable where the proprietor of a trademark has "legitimate reasons" to oppose parallel importation of goods protected by his right. In particular, based on

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various supranational and national provisions and also the ECJ's case law, the proprietor of a trademark can prevent parallel imports of goods (individual items of a product) bearing his trademark, firstly, where the condition of the goods is changed or impaired after they have been put on the market and, secondly, where a parallel importer or an independent reseller uses the trademark affixed to his goods in a way that damages the reputation or the distinctive character of the trademark or creates a risk of such damage or constitutes an unfair exploitation of the reputation or the distinctive character of the trademark.

3. GATT/WTO Law assigns to the sovereign competence of states and unions of states the choice between the doctrines of national, regional, and international exhaustion of the exclusive right flowing from the trademark (Article 6 of the TRIPs Agreement), despite the fact that the doctrine of international exhaustion of trademark rights appears to be more compatible with the provisions of the aforementioned law [Articles XI (1), III (4) and XX (d) of the GATT 1994].
4. Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 incorporate the doctrine of "Union-wide" exhaustion of the exclusive right flowing from the trademark. In accordance with the above-mentioned provisions, as well as the provision of Article 2 (1) of Protocol 28 to the EEA Agreement, for the exclusive right flowing from a national or Community trademark to be exhausted with regard to a good bearing the trademark, the good must be put on the market in a Member State of the European Economic Area by the trademark proprietor or with his consent. In the Court's view, for the exclusive right flowing from a Community trademark to be exhausted with regard to a good bearing the trademark, the good must be put on the market in a Member State of the European Union by the trademark proprietor or with his consent.
5. The concept of "good" within the meaning of Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 includes, in the light of the ECJ's case law, any product that "can be valued in money and which are capable of forming the subject of commercial transactions". On the contrary, an object is not considered to be a good if it is supplied free of charge in order to promote the sale of other items bearing a specific trademark, since that object is not distributed in any way with the aim of it penetrating the market.
6. The concept of "putting on the market" within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 must be interpreted as including mainly the sale of trademarked goods, even if the relevant contract is concluded under reservation of title. On the contrary, that concept does not cover: (a) the transfer of ownership of a trademarked good by way of security, when the assignor remains in possession of the good in question; (b) preparatory actions for selling a trademarked good, such as the importation and the offer for sale of the good in question in a Member State of the European Economic Area; (c) the sale of a trademarked good to an undertaking that has its own legal personality but belongs to the same group as the trademark proprietor; (d) only the internal transit of a trademarked good,

even if the good is intended to be put on the market in a third country (in relation to the EU or the EEA); (e) only the offer for sale or the sale of a trademarked good after the good in question has entered physically but not legally the territory of the EU (or the EEA); (f) the distribution, free of charge, of trademarked items intended to promote the sale of other goods, because such items are not distributed in any way with the aim of them penetrating the market.

7. For the provisions of Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 to apply, only the place where a trademarked good has been put on the market is relevant. On the contrary, the place where a trademarked good has been produced is indifferent.
8. The exhaustion of trademark rights rule does not apply to the entire production line of a trademarked product but only to individual trademarked items of a product that have been put on the market by the trademark proprietor or with his consent.
9. Articles 7 of Directive 2008/95/EC and 13 of Regulation (EC) 207/2009 apply only to goods that have been put on the market in the European Economic Area by the proprietors of the trademarks borne by the goods or with their consent. In the ECJ's view, Article 13 of Regulation (EC) 207/2009 apply only to goods that have been put on the market in the European Union by the proprietors of the trademarks borne by the goods or with their consent. In the light of the ECJ's case law, the Member States of the European Union are prohibited from adopting a doctrine of international exhaustion of the exclusive right flowing from the national trademark, through legislation or through their courts' case law, since such a doctrine is incompatible with Article 7 (1) of Directive 2008/95/EC. Such a prohibition is necessary in order to safeguard the effet utile of Articles 34 and 36 of the TFEU and also of the provisions of the TFEU related to the EU's economic policies. A consideration of Article 7 (1) of Directive 2008/95/EC as a maximum standard may be based on Article 207 of the TFEU and is, moreover, in conformity with GATT/WTO law.
10. A trademark proprietor puts goods bearing the trademark on the market within the meaning of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 even when he sells the goods to an undertaking established in the EEA that has undertaken a contractual obligation to resell the goods outside the EEA.
11. The consent of a trademark proprietor for putting goods bearing the trademark on the market in the EEA (or in the EU, in the Court's view, as far as goods bearing a Community trademark are concerned) may be either explicit or implicit, but, in any case, it must be expressed positively. The facts and circumstances taken into consideration in determining whether there is an implied consent must unequivocally demonstrate that the trade mark proprietor has renounced his right to oppose the importation of the goods in question in Member States of the EU. Implied consent cannot be inferred from the mere silence of the trade mark proprietor or from facts and circumstances that do not imply the proprietor's renunciation of his exclusive right. Therefore, implied

consent cannot be inferred (a) from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of goods placed on the market outside the EEA his opposition to marketing within the EEA; (b) from the fact that trademarked goods carry no warning that it is prohibited to place them on the market within the EEA; (c) from the fact that the trademark proprietor has transferred the ownership of goods bearing the trademark without imposing any contractual reservations or from the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA, or (d) from the tolerance shown by the trademark proprietor against an illegal putting on the market of goods bearing the trademark within the EEA.

12. It must be accepted, as an irrefutable presumption, that a trademarked good has been put on the market with the consent of the trademark proprietor, in particular, where the good has been marketed by an undertaking belonging to the same group as the trademark proprietor or by a trademark licensee or by an authorised (exclusive or selective) distributor. The consent provided for in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 does not exist and the exhaustion of trademark rights is precluded if a trademark licensee manufactured or put on the market trademarked goods in contravention of a contractual provision mentioned in Articles 8 (2) of Directive 2008/95/EC and 22 (2) of Regulation (EC) 207/2009. The consent of the trademark proprietor-parent undertaking of a group or of the trademark proprietor-manufacturer applies also as consent of the trademark proprietor-subsidiary undertaking or of the trademark proprietor-exclusive distributor, respectively.
13. By virtue of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009, a trademark proprietor cannot prevent the trademark borne by a good that has been put on the market in the EEA (or in the EU, in the Court's view, if the good bears a Community trademark) by the trademark proprietor or with his consent from being used in marketing or in advertising the good and also from being reaffixed to the good under certain circumstances.
14. The rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 can be extended to trademarked goods put on the market in a third country (outside the European Union) only when an International Agreement between the EU and the third country has been concluded in that sphere. The rules enshrined in Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 have already been extended to goods put on the market in the EEA Member States by virtue of the EEA Agreement, as it has on several occasions been stated.
15. In case of a conflict between the provisions of Articles 101 or 102 of the TFEU and Article 7 (1) of Directive 2008/95/EC or Article 13 (1) of Regulation (EC) 207/2009, Articles 101 or 102 of the TFEU must take precedence.
16. The rule of evidence that exhaustion of the trademark right constitutes a plea in defence for a third party against whom the trademark proprietor brings an action so that the conditions for such exhaustion must, as a rule, be proved

by the third party who relies on it is consistent with EU law and, in particular, with Articles 5 and 7 of Directive 89/104/EEC (now Articles 5 and 7 of Directive 2008/95/EC). However, the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 and 30 of the EC Treaty (now Articles 34 and 36 of the TFEU) may mean that such rule of evidence needs to be qualified. This must be so where the rule in question would allow the proprietor of the trademark to partition national markets and thus assist the maintenance of price differences that may exist between Member States.

17. "Legitimate reasons" for excluding the applicability of Articles 7 (1) of Directive 2008/95/EC and 13 (1) of Regulation (EC) 207/2009 within the meaning of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 shall exist (a) where the condition of the parallel imported goods is changed or impaired after they have been put on the market for the first time and (b) where the use of the trademark affixed to the parallel imported goods by the independent trader (parallel importer or independent reseller) entails damage or a risk of damage to the reputation or the distinctive character of the trademark or an unfair exploitation of the reputation or the distinctive character of the trademark.
18. According to the Court, both a change or impairment in the original condition of the product inside the packaging of a trademarked good and a change or impairment in the original condition of the packaging of a trademarked good fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009.
19. Changes in the original condition of the packaging of a trademarked product that fall within the scope of Articles 7 (2) of Directive 2008/95/EC and 13 (2) of Regulation (EC) 207/2009 include the following practices: (1) replacing the (original) inner or outer packaging of the product and reaffixing the trademark under which the product has been marketed to the new packaging of it; (2) altering the contents or the appearance of the (original) external packaging of the product, leaving intact the trademark affixed to that packaging; (3) affixing a new label to the (original) inner or outer packaging of the product, leaving intact the trademark affixed to that packaging; (4) adding new user instructions or information in the language of the Member State of importation to the packaging of the product; (5) replacing the accompanying product included in the packaging of the product; (6) removing or eliminating the identification numbers placed on the product; (7) adding the trademark of the parallel importer or independent reseller of the product to its packaging; (8) removing the trademark under which the product has been marketed; and (9) replacing the trademark under which the product has been marketed with the trademark used for the authorised distribution of the same product in the Member State of importation.
20. The above-mentioned (under 19) changes (1)–(5) do not allow for the prohibition of the parallel import of the product, provided that the conditions laid down

in the judgements in *MPA Pharma*, *Eurim-Pharm v. Beiersdorf*, and *Bristol-Myers Squibb v. Paranova*, namely the following conditions, are cumulatively satisfied: (a) it is established that reliance on the trademark right in order to prohibit the parallel import would contribute to the artificial partitioning of the markets between Member States; (b) it is shown that the repackaging cannot affect the original condition of the product inside the packaging; (c) the new packaging clearly states who repackaged the product and the name of the manufacturer; similarly, the origin of an extra article from a source other than the trademark owner must be indicated in such a way as to dispel any impression that the trademark owner is responsible for it; (d) the presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owner; (e) the importer gives notice to the trademark owner before the repackaged product is put on sale and, on demand, supplies him with a specimen of the repackaged product. Those conditions apply, in principle, to any trademarked product. The above-mentioned (under 19) changes (6)–(8) do not allow for the prohibition of the parallel import of the product, provided that they do not entail damage or a risk of damage to the reputation of the trademark borne by the product and of the proprietor of that trademark or an unfair exploitation of that reputation. Finally, the above-mentioned (under 19) change (9) does not allow for the prohibition of the parallel import of the product if it is established that reliance on the trademark right in order to prohibit the parallel import would contribute to the artificial partitioning of the markets between Member States.

21. Changes in the original condition of the product inside the packaging of a trademarked good include repair or reprocessing works on the product unless, in the framework of such works, (1) defects or imperfections in non-essential parts of the product (i.e., parts of the product not directly linked to its functioning or intended purpose) have been eliminated; (2) non-essential parts of the product have been replaced; and (3) the colour or shade of the product has changed and, at the moment of the parallel importation, the new colour or shade belongs to the palette of colours or shades used by the trademark proprietor, and moreover the change of the colour or shade did not involve an alteration of the original quality of the product or a risk of the original quality of the product being altered.
22. A damage to the reputation of the trademark borne by parallel imported goods or a risk of such damage or an unfair exploitation of that reputation may arise either in the framework of the independent trader's advertising or in the framework of the circumstances under which the goods are marketed. The proprietor of a trademark may, under Article 7 (2) of Directive 2008/95/EC or Article 13 (2) of Regulation (EC) 207/2009, oppose the use of his trademark by an independent trader for advertising purposes only if such a use *seriously* damages or is liable to *seriously* damage the reputation of the trademark (emphasis added).

23. The disruption to a selective distribution network by an independent trader is not a "legitimate reason" within the meaning of Article 7 (2) of Directive 2008/95/EC and Article 13 (2) of Regulation (EC) 207/2009.
24. The parallel importer or the independent reseller is the one who bears the burden of proving the conditions set out in the *MPA Pharma*, *Eurim-Pharm v. Beiersdorf* and *Bristol-Myers Squibb v. Paranova* judgments. On the contrary, the trademark proprietor is the one who bears the burden of proving that the type of advertising chosen by an independent trader or the circumstances under which parallel imported goods are marketed entail damage to the reputation of the trademark borne by such goods or a risk of that reputation being damaged or an unfair exploitation of that reputation.
25. An overview of the legislation and case law on the legality of parallel imports of trademarked products of the ten major trading partners of the European Union shows that most of those states recognise a doctrine of national exhaustion of trademark rights (USA, Russia, Turkey, South Korea, and Brazil); three of those states recognise a doctrine of international exhaustion of trademark rights (Switzerland, Japan, and India), whereas the viewpoint of one of them (China) is vague about the issue of the legal treatment of parallel imports under trademark law.

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BGHZ 2, 261 – *Tauchpumpensatz*
BGHZ 23, 100
BGHZ 3, 193 = BGH GRUR 1959, 232 – *Förderrinne*
BGHZ 41, 84 – *Maja*
BGH ZIP 2000, 289
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OLG München, GRUR Int. 1996, 730 – *GT – ALL TERRA*
OLG München, WRP 1993, 47 – *Aufgearbeitete Kupplung*
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RGZ 103, 359 – *Singer (I)*
RGZ 133, 326 – *Gummitülle*
RGZ 161, 29 – *Zählerersatzteile* (also *Isaria*)
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South Korea

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American Bourjois & Co. v. Katzel, 275 F. 539 (2nd Cir. 1921)
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U.S. v. Guerlain, Inc.; U.S. v. Parfums Corday, Inc.; U.S. v. Lanvin Parfums, Inc., 172 F. Supp. 107 (1959)

United States v. Eighty – Three Rolex Watches, 992 F. 2d 508 (5^{th} Cir. 1993)

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Appendix

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
African Intellectual Property Organization (OAPI)[1]	Annex III, Trademarks and Service Marks, Article 7 (4) of the Agreement Revising the Bangui Agreement of March 2, 1977, on the Creation of an African Intellectual Property Organization (Bangui (Central African Republic), February 24, 1999)	National exhaustion
Albania	Article 158 (1) of the Law No. 9977 of July 07, 2008 on Industrial Property (Ligj Nr. 9947, datë 7.7.2008 Për Pronësinë Industriale)	National exhaustion
Andean Community[2]	Article 158 of Decision No. 486 of September 14, 2000 of the Commission of the Andean Community – Common Industrial Property Regime	International exhaustion
Andorra	Article 16 (1) of the Law on Trademarks (Llei de marques), of May 11, 1995	Regional exhaustion
Antigua and Barbuda	Article 6 (3) of the Trade Marks Act, of 2003: No. 18 of 2003	National exhaustion
Argentina	See F. Aulmann, in Mamudi S.-S., How to cope when IP rights reach their limits, *Managing Intellect Prop* 60, 61 (2005)	International exhaustion
Armenia	Article 14(1), (2) of the Law of the Republic of Armenia on trademarks, of July 1, 2010	International exhaustion
Australia	Section 198A of Copyright Act, of June 27, 1968 (consolidated as of 1 June 2011)	International exhaustion

(continued)

[1] Member States: Côte d'Ivoire, Gabon, Guinea-Bissau, Guinea, Equatorial Guinea, Cameroon, Central African Republic, Congo, Mali, Mauritania, Benin, Burkina Faso, Niger, Senegal, Togo, Chad.

[2] Member States: Bolivia, Colombia, Ecuador, Peru.

L.G. Grigoriadis, *Trade Marks and Free Trade*, DOI 10.1007/978-3-319-04795-9,

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Austria	§ 10b (1) of Trademarks Protection Law, of July 7, 1970 (Markenschutzgesetz 1970)	Regional exhaustion
Azerbaijan	Article 25 (3) of the Law of the Republic of Azerbaijan on Trademarks and Geographical Indications (Əmtəə nişanları və coğrafi göstəricilər haqqında Azərbaycan Respublikasının Qanunu), of June 12, 1998	National exhaustion
Bahrain	Article 44(B) of the Legislative Decree No. 11 of 2006 in respect of Trade Marks (قانون رقم (11) لسنة 2006 في شأن العلامات التجارية), of May 28, 2006	International exhaustion
Barbados	Article 7 of the Trade Marks Act, Cap. 319, of December 21, 1981	National exhaustion
Belarus	Article 20 (5) of the Law on Trademarks and Service Marks of February 5, 1993 (Закон Республики Белакусь от 5 февраля 1993 г. № 2181-XII о товарных знаках и знаках обслуживания)	National exhaustion
Belize	Article 27 (1) of Trade Marks Act – Cap. 257, of June 22, 2000	Regional exhaustion
Benelux (Belgium, Luxembourg, Netherlands)	Article 2.23 (3) of the Benelux Convention concerning Intellectual Property (Trademarks and Designs) of February 25, 2005 (Benelux-Verdrag inzake de intellectuele eigendom (merken en tekeningen of modellen)/Convention Benelux en matière de propriété intellectuelle (Marques et dessins ou modèles))	Regional exhaustion
Bhutan	Article 28 (3) of the Industrial Property Act of the Kingdom of Bhutan, of July 13, 2001	National exhaustion
Bosnia & Herzegovina	Article 51(1) of the Trademark Law (Zakon o Zigu), of May 28, 2010	International exhaustion
Botswana	Article 82 (1) (b) of the Industrial Property Act, of April 24, 2010	International exhaustion
Brazil	Article 132 (III), of the Law No. 9.279, of May 14, 1996 (Lei da Propriedade Industrial n.° 9.279 de 14 de Maio de 1996)	National exhaustion
Bulgaria	Article 15 (1) of the Law on Marks and Geographical Indications (Закон за марките и географските означения), of September 1, 1999	Regional exhaustion
Burundi	Article 313 of Law No. 1/13 of July 28th, 2009 on Industrial Property in Burundi (Loi n° 1/13 du 28 juillet 2009 relative à la propriété industrielle au Burundi)	International exhaustion
Cambodia	Article 11 (c) of Law concerning Marks, Trade Names and Acts of Unfair Competition of the Kingdom of Cambodia, of February 7, 2002	National exhaustion

(continued)

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Canada	"Material difference rule" – See. Supreme Court D.L.R. 1984, 161 – *Consumers Distributing Co. v. Seiko Time Canada Ltd;* see Swanson T., "Combating Gray Market Goods in a Global Market: Comparative Analysis of Intellectual Property Laws and Recommended Strategies", 22 *Houst J Int Law* 327, 347–348 (2000); Peterman B., "The Gray Market Solution: An Allocation of Economic Rights", 28 *Tex Int Law J* 159, 181 (1993)	National exhaustion
Cape Verde	Article 168 (1) of Decree-Law No. 4/2007 of 20 August. Industrial Property Code (Decreto-lei n° 4/2007 de 20 de Agosto. Código da Propriedade Industrial)	National exhaustion
Chile	Article 19 bis E of Law No. 19.039 on Industrial Property (Consolidated Text by Decree-Law No. 3) (Ley N° 19.039 de Propiedad Industrial (Texto Refundido, Coordinado y Sistematizado por Decreto-Ley N° 3)), of March 9, 2006	International exhaustion
Costa Rica	Article 27 of Law No. 7978 on Trademarks and Other Distinctive Signs (Ley N° 7978 de Marcas y Otros Signos Distintivos), of January 6, 2000	International exhaustion
Croatia	Article 11 (1), (3) of the Trademarks Act (NN 173/2003) and Acts on Amendments to the Trademarks Act (NN 76/2007, NN 30/2009 and NN 49/2011)	Regional exhaustion
Cuba	Article 47 (1) of the Decree-Law No. 203 on Trademarks and Other Distinctive Signs (Decreto-Ley N° 203 de Marcas y Otros Signos Distintivos), of December 24, 1999	International exhaustion
Cyprus	Article 6 (7) of the Trade Marks Law (Cap. 268, No. 63 of 1962), as amended by Law No. 176 (I)/2000	Regional exhaustion
Czech Republic	Article 11 (1), (2) of the Law No. 441/2003 Coll. of 3 December 2003, on Trademarks and on Amendments to Act No. 6/2002 on Judgements, Judges, Assessors and State Judgement Administration and on Amendments to Some Other Acts (Act on Courts and Judges) in the Wording of Later Regulations (Zákon č. 441/2003 Sb. dne 3. prosince 2003, o ochranných známkách ao změně zákona č. 6/2002 o soudních rozhodnutí, soudcích, přísedících a státní Rozsudek správě ao změně některých dalších zákonů (zákon o soudech a soudcích), ve znění pozdějších předpisů)	Regional exhaustion

(continued)

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Denmark	Article 6 (1) of the Consolidated Trademarks Act No. 90 of 28 January 2009 (Den konsoliderede Varemærker lov nr. 90 af 28 januar 2009)	Regional exhaustion
Djibouti	Article 154 (1) of the Law No. 50/AN/09/6th L on the Protection of Industrial Property (Loi n° 50/AN/09/6ème L portant protection de la propriété industrielle), of June 21, 2009	International exhaustion
Dominican Republic	Article 88 of the Law No. 20-00 on Industrial Property (Ley N° 20-00 sobre Propiedad Industrial), of April 4, 2000	International exhaustion
Ecuador	Article 219 of the Law on Intellectual Property (Consolidation No. 2006-013) (Ley de Propiedad Intelectual (Codificación N° 2006-013)), of May 8, 1998	International exhaustion
Egypt	Article 71 of the Law on the Protection of Intellectual Property Rights, Law No. 82, 2002 (قانون رقم 82 لسنة 2002 بإصدار قانون حقوق الملكية الفكرية), of June 3, 2002	International exhaustion
El Salvador	Article 28 of the Law on Trademarks and Other Distinctive Signs (Ley de Marcas y otros Signos Distintivos), of June 6, 2002	National exhaustion
Estonia	Article 16 (3) of the Trademark Act, of May 22, 2002 (Kaubamärgiseadus Vastu võetud 22.05.2002 RT I 2002, 49, 308)	Regional exhaustion
European Economic Area (EEA)[3]	Article 7 (1) of the Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (2008)	Regional exhaustion
European Union[4]	Article 7 (1) of the Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (2008). Article 13 (1) of the Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community trade mark (Codified version) (2009)	Regional exhaustion

(continued)

[3] Member States: Member States of the European Union, Iceland, Liechtenstein, Norway.

[4] Member States: Austria, Belgium, Bulgaria, France, Germany, Denmark, Greece, Estonia, United Kingdom, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Hungary, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Czech Republic, Finland, and Croatia.

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Finland	Article 10a (1) of the Trademark Law No. 7 of January 10, 1964 (as last amended by Law No. 1715 of 22 December 1995)	Regional exhaustion
France	Article L 713-4 (1) of the Intellectual Property Code (Code de la Propriété Intellectuelle), of July 1, 1992	Regional exhaustion
FYROM	Article 209 of the Law on Industrial Property, of February 12, 2009	International exhaustion
Gambia	Article 31 (3) of the Industrial Property Act, 1989	National exhaustion
Georgia	Article 7 (2) of the Trademark Law of Georgia, February 2, 1999	International exhaustion
Germany	Article 24 (1) of the Law on the Protection of Trademarks and other Signs (as amended 22 December 2010) (Gesetz über den Schutz von Marken und sonstigen Kennzeichen (Markengesetz – MarkenG) (geändert am 22. Dezember 2010)), of October 25, 1994	Regional exhaustion
Ghana	Section 9 (6) of the Trade Marks Act, 2004 (Act 664), of January 29, 2004	International exhaustion
Greece	Article 128 (1) of the Law 4072/2012 (“Improvement of the business environment – New corporate form – Trade Marks – Realtors – Regulating maritime, port and fishing matters and other provisions”), of April 11, 2012	Regional exhaustion
Guatemala	Article 37 of the Industrial Property Law (Ley de Propiedad Industrial), of September 18, 2000	International exhaustion
Honduras	Article 98 of the Decree No. 12-99-E, Industrial Property Law (Decreto N° 12-99-E, Ley de Propiedad Industrial), of December 30, 1999	International exhaustion
Hong Kong (China)	Section 20 (1) of Chapter: 559 Trade Marks Ordinance (商標條例), of June 15, 2000	International exhaustion
Hungary	Article 16 (1) of the Act XI of 1997 as consolidated on January 1, 2008	Regional exhaustion
India	Article 30 (3) (b) of the Trade Marks Act, December 30, 1999	International exhaustion
Iran	Article 40 (c) of the Patent, Industrial Design and Trademark Registration Act, of October 29, 2007	National exhaustion
Ireland	Article 16 (1) of the Trade Marks Act No. 6, March 16, 1996	Regional exhaustion
Italy	Article 1bis (2) of the Trademark Law, Royal Decree No. 929 of June 21, 1942 (as last amended by Legislative Decree No. 198 of March 19, 1996)	Regional exhaustion

(continued)

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Japan	See Osaka District Court, 27.02.1970, 2 IIC 325 = GRUR Int. 1971, 276 – *Parker*· Tokyo District Court, 07.12.1984, GRUR Int. 1986, 420 – *Lacoste*; Nagoya District Court AIPPI–Jap Group Int. 1988, 10 – *BBS Trade Marks*	International exhaustion
Latvia	Article 5 (2) of the Law on Trademarks and Indications of Geographical Origin (Likums par preču zīmēm un ģeogrāfiskās izcelsmes norādēm), of June 16, 1999	Regional exhaustion
Lesotho	Article 29 (3) of the Industrial Property Order (Ordonnance sur la propriété industrielle), of April 14, 1989	National exhaustion
Liberia	Article 43 (3) of the Industrial Property Act, of March 20, 2003	National exhaustion
Liechtenstein	Article 13 (4) of the Law on the Protection of Trademarks and Geographical Indications (Trademark Protection Law) (Gesetz über den Schutz von Marken und Herkunftsangaben (Markenschutzgesetz)), of December 12, 1996	Regional exhaustion
Lithuania	Article 40 (1) of the Law on Trademarks of October 10, 2000, No. VIII-1981 (as amended on 8 June 2006 – by Law No. X-651) (2000 m. spalio 10 d. Prekių ženklų įstatymas Nr. VIII-1981 (su pakeitimais, padarytais 2006 m. birželio 8 d. įstatymu Nr. X-651))	Regional exhaustion
Madagascar	Article 68 (1) of the Ordinance No. 89-019 Establishing Arrangements for the Protection of Industrial Property (of July 31, 1989) (Ordonnance n° 89-019 instituant un régime pour la protection de la propriété industrielle (du 31 juillet 1989))	National exhaustion
Malaysia	See *Winthrop Products Inc & Anor v. Sun Ocean (M) Sdn Bhd & Anor (Panadol Case)*, 2 MLJ 317 (1988); Chong J., "Exhaustion and Parallel Imports in Malaysia", in Heath C. (ed.), *Parallel Imports in Asia*, Kluwer Law international, The Hague u.a. 2004, pp. 123, 127–130	International exhaustion
Malta	Article 12 (1), (3) of Trademarks Act (Chapter 416), of January 1, 2001	Regional exhaustion
Mauritius	Article 40 (5) of the Patents, Industrial Designs and Trademarks Act 2002, of July 2, 2002	National exhaustion

(continued)

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Mercosur[5]	Article 13 of the Protocol on Harmonization of Norms on Intellectual Property in Mercosur in Matters of Trademarks, Indications of Source and Appellations of Origin 460, Aug. 5, 1995	International exhaustion
Mexico	Article 92 (II) of the Law on Industrial Property (Ley de la Propiedad Industrial), of June 25, 1991	International exhaustion
Moldova	Article 13 (1) of the Law on the Protection of Trademarks, No. 38-XVI of February 29, 2008 (Lege privind protectia marcilor, nr 38-XVI sin 29 februarie 2008)	National exhaustion
Montenegro	Article 15 (1), (3) of the Law on Trademarks (ЗАКОН О ЖИГУ), of November 30, 2010	National exhaustion
Mozambique	Article 124 (6) of Decree No. 04/2006 of 12 April 2006 (Industrial Property Code) (Decreto n° 04/2006 de 12 de Abril 2006 (Código da Propriedade Industrial))	National exhaustion
New Zeeland	Section 97A of Trade Marks Act, of December 4, 2002 (inserted, on 31 October 2003, by section 5 of the Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003 (2003 No 111))	International exhaustion
Nicaragua	Article 29 of Law No. 380, Law on Trademarks and Other Distinctive Signs (Ley N° 380, Ley de Marcas y Otros Signos Distintivos), of February 14, 2001	International exhaustion
Norway	Article 6 (1) of the Trademarks Act (Act No. 8 of March 26, 2010)	Regional exhaustion
Panama	Article 100 (1) of the Law No. 35 of May 10, 1996 Enacting Provisions on Industrial Property (Ley N° 35 de 10 de mayo de 1996 por la cual se dictan Disposiciones sobre la Propiedad Industrial)	International exhaustion
Paraguay	Article 17 of the Law No. 1.294/1998 on Trademarks (Ley N° 1.294/1998 de Marcas), of June 24, 1998	International exhaustion
Poland	Article 155 (1), (2) of the Industrial Property Law of 30 June 2000	Regional exhaustion
Portugal	Article 259 (1) of the Industrial Property Code (consolidated as of 2008) (Código da Propriedade Industrial (consolidado em 2008)), of March 5, 2003	Regional exhaustion

(continued)

[5] Member States: Argentina, Brazil, Paraguay, Uruguay.

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Republic of Korea (South Korea)	See Supreme Court, 10.10.1997 (96 Do 2191), 30 IIC 459 (1999) – *Polo*; see in detail Kim B.-I., "Exhaustion and Parallel Imports in Korea", in Heath C. (ed.), *Parallel Imports in Asia*, Kluwer Law international, The Hague u.a. 2004, pp. 73, 78–81; Liew Y.-H., "Parallel Problems: Parallel Imports Are a Growing Concern in Korea", *Managing Intellect Prop* 95–96 (2009)	National exhaustion
Romania	Article 38 (1) of the Law No. 84/1998 on Trademarks and Geographical Indications (Legea nr. 84/1998 privind marcile şi indicaţiile geografice)	Regional exhaustion
Russia	Article 23 Trademark Law #3520-1 of September 23, 1992, as amended by the federal law 166-FL on December 11, 2002	National exhaustion
Rwanda	Article 152 (1) of the Law No. 31/2009 of 26/10/2009 on the Protection of Intellectual Property (Itegeko N° 31/2009 ryo kuwa 26/10/2009 rigamije kuregera umutungo bwite mu BY'UBWENGE)	National exhaustion
Saint Kitts and Levis	Article 9 (4) of the Marks, Collective Marks and Trade Names Act (Cap. 18.22), of December 31, 2002	International exhaustion
San Marino	Article 72 (3) of the Law on Industrial Property of May 25, 2005, No. 79	National exhaustion
São Tomé and Príncipe	Article 19 (3) of the Law No. 4/2001 of 31 December 2001 on Industrial Property (Lei n° 4/2001 de 31 de Dezembro 2001 sobre a Propriedade Industrial), of September 12, 2001	National exhaustion
Serbia	Article 40 (1) of the Law on Trademarks, of December 11, 2009	International exhaustion
Singapore	Article 29 (1) of the Trade Marks Act (Chapter 332), of December 11, 1998	International exhaustion
Slovakia	Article 15 (1) of the Act No. 506/2009 Coll. on Trade marks (Zákon č. 506/2009 Z.z. o ochranných známkach), of October 28, 2009	Regional exhaustion
Slovenia	Article 50 (1), (3) of the Industrial Property Act (ZIL-1-UPB3) of 23 May 2001 as last amended on 6 February 2006 (as in force from 11 March 2006)	Regional exhaustion
South Africa	Article 34 (2) (d) of the Trade Marks Act No. 194 of December 22, 1993, of December 22, 1993	International exhaustion

(continued)

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Spain	Article 36 (1) of the Law 17/2001 of 7 December, on Trademarks (Consolidated Text Including the Amendments Made by Law 20/2003, of July 7, 2003, on Legal Protection of Industrial Designs) (Ley 17/2001, de 7 de diciembre, de Marcas (Texto consolidado que incluye las modificaciones introducidas por la ley 20/2003, de 7 de julio 2003, de protección jurídica del diseño industrial)), of July 9, 2003	Regional exhaustion
Sri Lanka	Article 122 (b) of the Intellectual Property Act, No. 36 of 2003	National exhaustion
Sweden	Article 12 (1) of the Trademark Act (2010:1877) (Varumärkeslag (2010:1877)), of September 12, 2010	Regional exhaustion
Switzerland	See Schweizerisches Bundesgericht GRUR Int. 1998, 520 – *Chanel*	International exhaustion
Tajikistan	Article 28 of the Law of the Republic of Tajikistan on Trademarks and Service Marks (Қонуни Ҷумҳурии Тоҷикистон Дар Бораи Тамғаҳои Молӣ Ва Тамғаҳои Хизматрасонӣ), of March 5, 2007	National exhaustion
Thailand	See *Central Intellectual Property and International Trade Court Decision No. 16/2542 (1999), Supreme Court No. 2817/2543 (2000)*; Vichai A., "Exhaustion and Parallel Imports in Thailand", in Heath C. (ed.), *Parallel Imports in Asia*, Kluwer Law international, The Hague u.a. 2004, pp. 95, 98–100.	International exhaustion
Tonga	Article 29 (3) of the Industrial Property Act 1994 (No. 19 of 1994) (Ko E Lao Ki He Ngaahi Koloa 'A E Ngaahi Ngaue'Anga), of November 9, 1994	National exhaustion
Trans-Pacific Strategic Economic Partnership Agreement[6]	Article 10.3 (a) of Trans-Pacific Strategic Economic Partnership Agreement	International exhaustion
Turkey	Article 13 (1) of the Decree-Law No. 556 on the Protection of Trademarks (556 Sayılı Markalarm Korunması Hakkında Kanun Hükmünde Kararname), of June 24, 1995	National exhaustion

(continued)

[6] Member States: Brunei, Chile, New Zeeland, Singapore.

States – union of states	Provision – case-law – bibliography on exhaustion of trade mark rights	Exhaustion of Trade Mark Rights Regime
Ukraine	Article 16 (6) of the Law on Protection of Rights to Marks for Goods and Services (ЗАКОН Про охорону прав на знаки для товарів і послуг), of December 15, 1993	International exhaustion
United Kingdom	Article 12 (1) of the Trade Marks Act 1994, of July 21, 1994	Regional exhaustion
United States	Sec. 42 Lanham Act, Sec. 526 Tariff Act και 19 C.F.R. § 133.23	National exhaustion
Uruguay	Article 12 of the Law No. 17.011 of September 25, 1998, Establishing Provisions on Trademarks (Ley N° 17.011 del 25 de septiembre de 1998, Díctanse normas relativas a las marcas), of September 25, 1998	International exhaustion
Vietnam	Article 125 (2) (b) of the Law on Intellectual Property No. 50/2005/QH11 of November 29, 2005	International exhaustion

States – union of states	Provisions regarding the exclusion of the applicability of the exhaustion of trade mark rights rule
African Intellectual Property Organization (OAPI)[7]	Annex III, Trademarks and Service Marks, Article 7 (4) of the Agreement Revising the Bangui Agreement of March 2, 1977, on the Creation of an African Intellectual Property Organization (Bangui (Central African Republic), February 24, 1999)
Albania	Article 158 (2) of the Law No. 9977 of July 07, 2008 on Industrial Property (Ligj Nr. 9947, datë 7.7.2008 Për Pronësinë Industriale)
Andean Community[8]	Article 158 of Decision No. 486 of September 14, 2000 of the Commission of the Andean Community – Common Industrial Property Regime
Andorra	Article 16 (2) of the Law on Trademarks (Llei de marques), of May 11, 1995
Armenia	Article 14(3) of the Law of the Republic of Armenia on trademarks, of July 1, 2010
Austria	§ 10b (2) of Trademarks Protection Law, of July 7, 1970 (Markenschutzgesetz 1970)
Barbados	Article 7 (1) of the Trade Marks Act, Cap. 319, of December 21, 1981
Belize	Article 27 (2) of Trade Marks Act – Cap. 257, of June 22, 2000

(continued)

[7] Member States: Côte d'Ivoire, Gabon, Guinea-Bissau, Guinea, Equatorial Guinea, Cameroon, Central African Republic, Congo, Mali, Mauritania, Benin, Burkina Faso, Niger, Senegal, Togo, Chad.

[8] Member States: Bolivia, Colombia, Ecuador, Peru.

States – union of states	Provisions regarding the exclusion of the applicability of the exhaustion of trade mark rights rule
Benelux (Belgium, Luxembourg, Netherlands)	Article 2.23 (3) of the Benelux Convention concerning Intellectual Property (Trademarks and Designs) of February 25, 2005 (Benelux-Verdrag inzake de intellectuele eigendom (merken en tekeningen of modellen)/Convention Benelux en matière de propriété intellectuelle (Marques et dessins ou modèles))
Botswana	Article 82 (1) (b) of the Industrial Property Act, of April 24, 2010
Bulgaria	Article 15 (2) of the Law on Marks and Geographical Indications (Закон за марките и географските означения), of September 1, 1999
Cape Verde	Article 168 (2) of Decree-Law No. 4/2007 of 20 August. Industrial Property Code (Decreto-lei n° 4/2007 de 20 de Agosto. Código da Propriedade Industrial)
Costa Rica	Article 27 of Law No. 7978 on Trademarks and Other Distinctive Signs (Ley N° 7978 de Marcas y Otros Signos Distintivos), of January 6, 2000
Croatia	Article 11 (2) of the Trademarks Act (NN 173/2003) and Acts on Amendments to the Trademarks Act (NN 76/2007, NN 30/2009 and NN 49/2011)
Cuba	Article 47 (2) of the Decree-Law No. 203 on Trademarks and Other Distinctive Signs (Decreto-Ley N° 203 de Marcas y Otros Signos Distintivos), of December 24, 1999
Cyprus	Article 6 (7) of the Trade Marks Law (Cap. 268, No. 63 of 1962), as amended by Law No. 176 (I)/2000
Czech Republic	Article 11 (3) of the Law No. 441/2003 Coll. of 3 December 2003, on Trademarks and on Amendments to Act No. 6/2002 on Judgements, Judges, Assessors and State Judgement Administration and on Amendments to Some Other Acts (Act on Courts and Judges) in the Wording of Later Regulations (Zákon č. 441/2003 Sb. dne 3. prosince 2003, o ochranných známkách ao změně zákona č. 6/2002 o soudních rozhodnutí, soudcích, přísedících a státní Rozsudek správě ao změně některých dalších zákonů (zákon o soudech a soudcích), ve znění pozdějších předpisů)
Denmark	Article 6 (2) of the Consolidated Trademarks Act No. 90 of 28 January 2009 (Den konsoliderede Varemærker lov nr. 90 af 28 januar 2009)
Djibouti	Article 154 (2) of the Law No. 50/AN/09/6th L on the Protection of Industrial Property (Loi n° 50/AN/09/6ème L portant protection de la propriété industrielle), of June 21, 2009
Dominican Republic	Article 88 (1) of the Law No. 20-00 on Industrial Property (Ley N° 20-00 sobre Propiedad Industrial), of April 4, 2000

(continued)

States – union of states	Provisions regarding the exclusion of the applicability of the exhaustion of trade mark rights rule
El Salvador	Article 28 (1) of the Law on Trademarks and Other Distinctive Signs (Ley de Marcas y otros Signos Distintivos), of June 6, 2002
Estonia	Article 16 (3) of the Trademark Act, of May 22, 2002 (Kaubamärgiseadus Vastu võetud 22.05.2002 RT I 2002, 49, 308)
European Economic Area (EEA)[9]	Article 7 (2) of the Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (2008)
European Union[10]	Article 7 (2) of the Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Codified version) (2008). Article 13 (2) of the Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community trade mark (Codified version) (2009)
Finland	Article 10a (2) of the Trademark Law No. 7 of January 10, 1964 (as last amended by Law No. 1715 of 22 December 1995)
France	Article L 713-4 (2) of the Intellectual Property Code (Code de la Propriété Intellectuelle), of July 1, 1992
FYROM	Article 209 of the Law on Industrial Property, of February 12, 2009
Georgia	Article 7 (2) of the Trademark Law of Georgia, February 2, 1999
Germany	Article 24 (2) of the Law on the Protection of Trademarks and other Signs (as amended 22 December 2010) (Gesetz über den Schutz von Marken und sonstigen Kennzeichen (Markengesetz – MarkenG) (geändert am 22. Dezember 2010)), of October 25, 1994
Greece	Article 128 (2) of the Law 4072/2012 ("Improvement of the business environment – New corporate form – Trade Marks – Realtors – Regulating maritime, port and fishing matters and other provisions"), of April 11, 2012
Guatemala	Article 37 (1) of the Industrial Property Law (Ley de Propiedad Industrial), of September 18, 2000
Honduras	Article 98 of the Decree No. 12-99-E, Industrial Property Law (Decreto N° 12-99-E, Ley de Propiedad Industrial), of December 30, 1999
Hong Kong (China)	Section 20 (2) of Chapter: 559 Trade Marks Ordinance (商標條例), of June 15, 2000

(continued)

[9] Member States: Member States of the European Union, Iceland, Liechtenstein, Norway.

[10] Member States: Austria, Belgium, Bulgaria, France, Germany, Denmark, Greece, Estonia, United Kingdom, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Hungary, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden, Czech Republic, Finland, and Croatia.

States – union of states	Provisions regarding the exclusion of the applicability of the exhaustion of trade mark rights rule
Hungary	Article 16 (2) of the Act XI of 1997 as consolidated on January 1, 2008
India	Article 30 (4) of the Trade Marks Act, December 30, 1999
Ireland	Article 16 (2) of the Trade Marks Act No. 6, March 16, 1996
Italy	Article 1bis (2) of the Trademark Law, Royal Decree No. 929 of June 21, 1942 (as last amended by Legislative Decree No. 198 of March 19, 1996)
Latvia	Article 5 (3) of the Law on Trademarks and Indications of Geographical Origin (Likums par preču zīmēm un ģeogrāfiskās izcelsmes norādēm), of June 16, 1999
Liechtenstein	Article 13 (5) of the Law on the Protection of Trademarks and Geographical Indications (Trademark Protection Law) (Gesetz über den Schutz von Marken und Herkunftsangaben (Markenschutzgesetz)), of December 12, 1996
Lithuania	Article 40 (2) of the Law on Trademarks of October 10, 2000, No. VIII-1981 (as amended on 8 June 2006 – by Law No. X-651) (2000 m. spalio 10 d. Prekių ženklų įstatymas Nr. VIII-1981 (su pakeitimais, padarytais 2006 m. birželio 8 d. įstatymu Nr. X-651))
Madagascar	Article 68 (1) of the Ordinance No. 89-019 Establishing Arrangements for the Protection of Industrial Property (of July 31, 1989) (Ordonnance n° 89-019 instituant un régime pour la protection de la propriété industrielle (du 31 juillet 1989))
Malta	Article 12 (2) of Trademarks Act (Chapter 416), of January 1, 2001
Moldova	Article 13 (2) of the Law on the Protection of Trademarks, No. 38-XVI of February 29, 2008 (Lege privind protectia marcilor, nr 38-XVI sin 29 februarie 2008)
Montenegro	Article 15 (2) of the Law on Trademarks (ЗАКОН О ЖИГУ), of November 30, 2010
Nicaragua	Article 29 (1) of Law No. 380, Law on Trademarks and Other Distinctive Signs (Ley N° 380, Ley de Marcas y Otros Signos Distintivos), of February 14, 2001
Norway	Article 6 (2) of the Trademarks Act (Act No. 8 of March 26, 2010)
Panama	Article 100 (1) of the Law No. 35 of May 10, 1996 Enacting Provisions on Industrial Property (Ley N° 35 de 10 de mayo de 1996 por la cual se dictan Disposiciones sobre la Propiedad Industrial)
Paraguay	Article 17 of the Law No. 1.294/1998 on Trademarks (Ley N° 1.294/1998 de Marcas), of June 24, 1998
Poland	Article 155 (3) of the Industrial Property Law of 30 June 2000
Portugal	Article 259 (2) of the Industrial Property Code (consolidated as of 2008) (Código da Propriedade Industrial (consolidado em 2008)), of March 5, 2003
Romania	Article 38 (2) of the Law No. 84/1998 on Trademarks and Geographical Indications (Legea nr. 84/1998 privind marcile şi indicaţiile geografice)

(continued)

States – union of states	Provisions regarding the exclusion of the applicability of the exhaustion of trade mark rights rule
San Marino	Article 72 (4) of the Law on Industrial Property of May 25, 2005, No. 79
Serbia	Article 40 (2) of the Law on Trademarks, of December 11, 2009
Singapore	Article 29 (2) of the Trade Marks Act (Chapter 332), of December 11, 1998
Slovakia	Article 15 (2) of the Act No. 506/2009 Coll. on Trade marks (Zákon č. 506/2009 Z.z. o ochranných známkach), of October 28, 2009
Slovenia	Article 50 (2) of the Industrial Property Act (ZIL-1-UPB3) of 23 May 2001 as last amended on 6 February 2006 (as in force from 11 March 2006)
Spain	Article 36 (2) of the Law 17/2001 of 7 December, on Trademarks (Consolidated Text Including the Amendments Made by Law 20/2003, of July 7, 2003, on Legal Protection of Industrial Designs) (Ley 17/2001, de 7 de diciembre, de Marcas (Texto consolidado que incluye las modificaciones introducidas por la ley 20/2003, de 7 de julio 2003, de protección jurídica del diseño industrial)), of July 9, 2003
Sweden	Article 12 (2) of the Trademark Act (2010:1877) (Varumärkeslag (2010:1877)), of September 12, 2010
Turkey	Article 13 (2) of the Decree-Law No. 556 on the Protection of Trademarks (556 Sayılı Markalarm Korunması Hakkında Kanun Hükmünde Kararname), of June 24, 1995
Ukraine	Article 16 (6) of the Law on Protection of Rights to Marks for Goods and Services (ЗАКОН Про охорону прав на знаки для товарів і послуг), of December 15, 1993
United Kingdom	Article 12 (2) of the Trade Marks Act 1994, of July 21, 1994
Uruguay	Article 12 of the Law No. 17.011 of September 25, 1998, Establishing Provisions on Trademarks (Ley N° 17.011 del 25 de septiembre de 1998, Díctanse normas relativas a las marcas), of September 25, 1998

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Major Publications in Legal Magazines

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